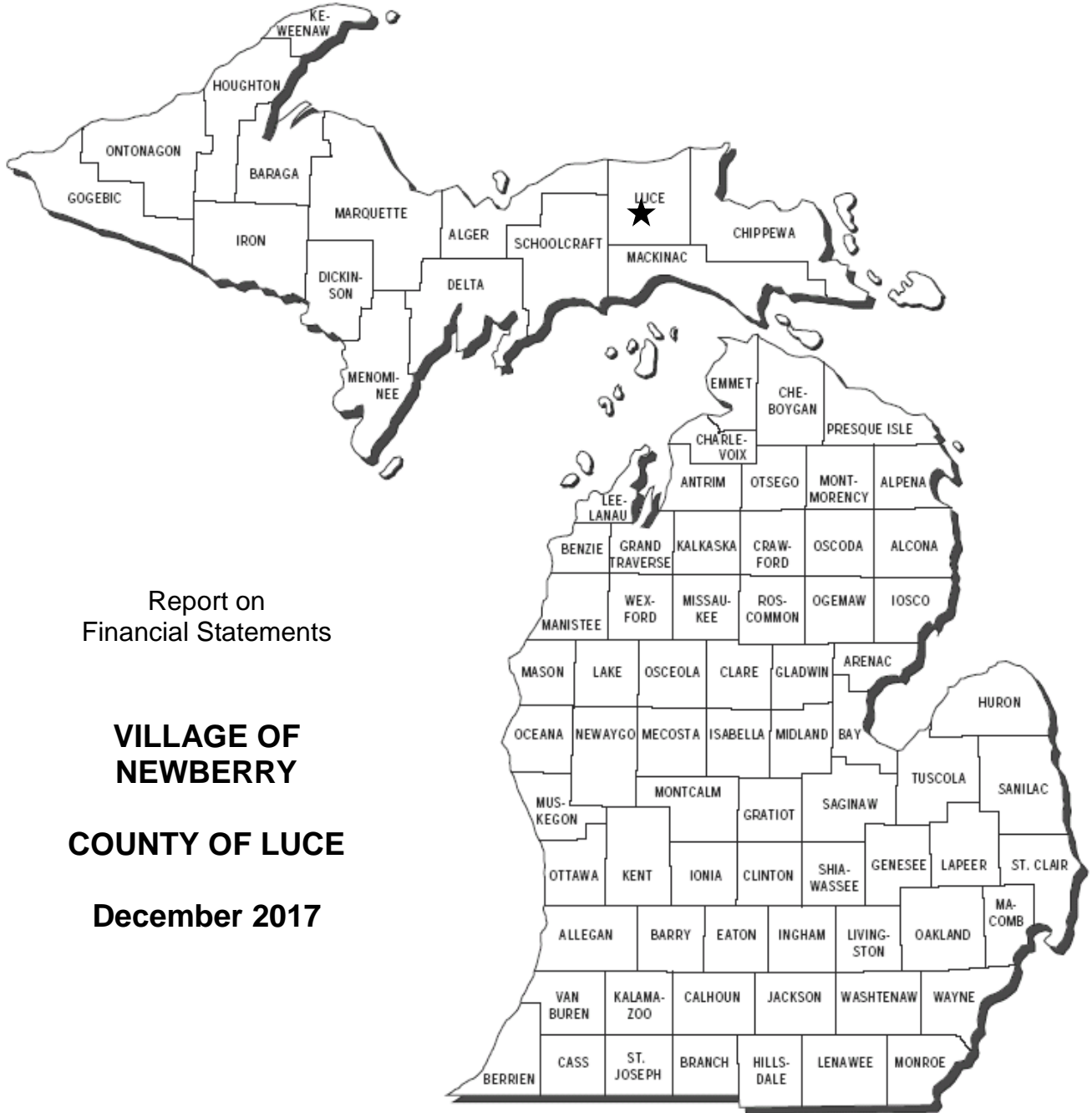


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Nick A. Khouri, State Treasurer



Report on
Financial Statements

**VILLAGE OF
NEWBERRY**

COUNTY OF LUCE

December 2017

VILLAGE OF NEWBERRY—LUCE COUNTY

VILLAGE COUNCIL
(September 11, 2018)

John DeWitt III
President

Sharon Brown
President Pro-Tem

Harold Dishaw
Trustee

Lew Hitts
Trustee

Daniel Hardenbrook
Trustee

Charles Medelis
Trustee

Dennis Hendrickson
Trustee

Jennifer James-Mesloh
Manager

Terese Schummer
Clerk

TOWNSHIP POPULATION--2010
1,519

TAXABLE VALUATION--2017
\$17,198,994



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

September 20, 2018

Village of Newberry
302 E. McMillan Ave
Newberry, Michigan 49868

Independent Auditor's Report

Dear Council Members:

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, Luce County, Michigan, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Village of Newberry's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Luce County, Michigan, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 as well as budgetary comparison information in Exhibit H, schedule of changes in the net pension liability, the schedule of pension contributions and schedule of funding progress-OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and 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 accompanying supplementary and related information presented in Exhibits I through L and the schedule of bond covenant cash reserves is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits I through L and the schedule of bond covenant reserves is the responsibility of management and was 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 accompanying supplementary and related information presented in Exhibits I through L and the schedule of bond covenant reserves is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018, on our consideration of the Village of Newberry's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Newberry's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division

VILLAGE OF NEWBERRY

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VILLAGE OF NEWBERRY

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VILLAGE OF NEWBERRY--LUCE COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017

Our discussion and analysis of the Village of Newberry’s (Village) financial performance provides an overview of the Village’s financial activities for the year ended December 31, 2017.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibit A and B 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 start with Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village’s operations in more detail than the government-wide statements by providing information about the Village’s most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE VILLAGE AS A WHOLE

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Village’s finances is, “Is the Village as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Village’s net position and changes in them. You can think of the Village’s net position — the difference between assets and liabilities—as one way to measure the Village’s financial health, or financial position. Over time, increases or decreases in the Village’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Village’s property tax base and the condition of the Village’s infrastructure, to assess the overall health of the Village.

In the Statement of Net Position and the Statement of Activities we divide the Village into two kinds of activities:

- Governmental activities--Most of the Village’s basic services are reported here, including the fire, public works, and general administration. Property taxes and state grants finance most of these activities.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended December 31, 2017

- Business-type activities--The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's sewer, water and electric systems are reported here.

REPORTING THE VILLAGE'S MAJOR FUND

Fund Financial Statements

Our analysis of the Village's major funds begins with Exhibit C and D with additional information provided in Note A of the Notes to the Financial Statements. The special revenue funds are required to be established by state law such as the Major Street Fund and the Local Street Fund. The Village's two kinds of funds, governmental and proprietary, use different accounting approaches.

- *Governmental funds*—Most of the Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at Exhibit C-1 and Exhibit D-1.
- *Proprietary funds*—When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules, pension related data and the OPEB schedule of funding progress.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017

THE VILLAGE AS A WHOLE

The Village’s combined net position increased from \$5,089,207 to \$5,827,932 or \$738,725 for the year ended December 31, 2017. This was a significant increase over the previous year when the net position increased \$2,592. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Village’s governmental and business-type activities.

Table 1
Net Position of Governmental and Business Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Current and Other Assets	\$ 867,795	\$ 1,035,761	\$ 1,895,696	\$ 1,382,172	\$ 2,763,491	\$ 2,417,933
Non-current Assets	391,214	524,466	16,905,036	18,323,096	17,296,250	18,847,562
Total Assets	1,259,009	1,560,227	18,800,732	19,705,268	20,059,741	21,265,495
Deferred Outflows of Resources	183,291	54,154	45,823	13,538	229,114	67,692
Current Liabilities	91,095	170,073	1,045,186	650,418	1,136,281	820,491
Non-current Liabilities	1,468,081	1,323,965	12,558,220	13,279,602	14,026,301	14,603,567
Total Liabilities	1,559,176	1,494,038	13,603,406	13,930,020	15,162,582	15,424,058
Deferred Inflows of Resources	29,653	64,958	7,413	16,239	37,066	81,197
Net Position						
Net Investment in Capital Assets	328,674	521,423	4,573,322	4,745,658	4,901,996	5,267,081
Restricted	248,430	372,858	-	-	248,430	372,858
Unrestricted	(723,633)	(838,896)	662,414	1,026,889	(61,219)	187,993
Total Net Position	\$ (146,529)	\$ 55,385	\$ 5,235,736	\$ 5,772,547	\$ 5,089,207	\$ 5,827,932

The net position of the Village’s governmental activities increased by 138%, or \$201,914 (-\$146,529 compared to \$55,385). The net investment in capital assets increased as the Village paid down debt related to the capital assets. This increase in the restricted net position was due to keeping expenses at a minimum as the Village is building its reserves to put toward future street improvement projects. The decrease in unrestricted net position was due to mainly due to a decrease in revenues in the general fund.

The net position of the Village’s business-type activities increased by 10%, or \$536,811 (\$5,235,736 compared to \$5,772,547). The net investment in capital assets decreased with the additional draws on bonds for water and sewer projects that are being financed through a USDA bonds offset by depreciation of the electric, sewer and water systems. The increase in the unrestricted net position was due to increased revenues from increasing rates to meet debt requirements and operational costs.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
	Program Revenue					
Charges for Services	\$ 592,970	\$ 177,733	\$ 3,978,103	\$ 3,943,835	\$ 4,571,073	\$ 4,121,568
Operating Grants and Contributions	358,651	13,275	-	-	358,651	13,275
Capital Grants and Contributions	-	187,772	-	-	-	187,772
General Revenue						
Property Taxes	383,071	360,447	-	-	383,071	360,447
State-Shared Revenues	178,314	427,256	-	-	178,314	427,256
Unrestricted Investment Earnings	1,830	1,292	3,080	3,007	4,910	4,299
Other	-	203,933	-	(1,479)	-	202,454
Transfers	31,971	-	(31,971)	-	-	-
Total Revenues	1,546,807	1,371,708	3,949,212	3,945,363	5,496,019	5,317,071
Program Expenses						
General Government	302,849	513,128	-	-	302,849	513,128
Public Safety	208,947	60,133	-	-	208,947	60,133
Public Works	589,985	554,119	-	-	589,985	554,119
Other	361,243	4,428	-	-	361,243	4,428
Recreation and Cultural	-	1,790	-	-	-	1,790
Interest on Debt	33,320	36,196	-	-	33,320	36,196
Sewer	-	-	1,110,340	691,963	1,110,340	691,963
Water	-	-	578,525	559,413	578,525	559,413
Electric	-	-	2,308,218	2,157,176	2,308,218	2,157,176
Total Expenses	1,496,344	1,169,794	3,997,083	3,408,552	5,493,427	4,578,346
Change in Net Position	\$ 50,463	\$ 201,914	\$ (47,871)	\$ 536,811	\$ 2,592	\$ 738,725

Governmental Activities

The total revenues for the Village's governmental activities decreased by 11% (\$175,099), while expenses decreased 22% (\$326,550). The primary reason for the decrease in revenues and expenditures is due to less reimbursements being billed from the general fund as there were less projects in the special revenue funds requiring overhead and equipment usage.

Business-Type Activities

The revenues for the Village's business-type activities remained flat (decrease of \$3,849), while expenses decreased 15% (\$588,531). The Village did increase their utility rates in Water and Sewer during 2017, however, these increases were offset by the decrease in internal Sewer O&M billings due to the Village combining the sewer funds into one fund. The decrease in the expenditures is also mainly due to the decrease in Sewer O&M expenses as the expenditure side of these billings are no longer reflected in the two sewer funds.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended December 31, 2017

THE VILLAGE'S FUNDS

As the Village completed the year, its General Fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$492,830, which is less than last year's \$588,109. The primary reasons for the governmental funds' decrease mirror the governmental activities analysis highlighted in the prior paragraph. The General Fund was the Village's only major fund in fiscal year end December 31, 2017.

The General Fund pays for most of the Village's governmental services. The most significant are for general government and public works activities. These services are supported by the operating millage and State-shared revenues. The Major Street Fund and the Local Street Fund performs public works and account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's street system. The Sewer, Water and Electric Funds are described above.

GENERAL FUND BUDGETARY HIGHLIGHT

Over the course of the year, the Village's budget was monitored monthly to continuously evaluate the financial position of the Village. Adjustments were approved throughout the year to try and take into account the activities of the Village for the year. The Village continues to be conservative in its budgeting. However, there were still several budget overages for the increased activity for the year in the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2017, the Village had \$17,753,766 invested in a broad range of capital assets, including land, buildings, land improvements, vehicles, equipment, street and sidewalk infrastructure, and water and sewer infrastructure. This amount represents a net increase (including additions and deductions) of \$457,516.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017

Table 3
Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Land	\$ -	\$ 5,773	\$ 15,204	\$ 15,204	\$ 15,204	\$ 20,977
Land Improvements	-	178,115	-	-	-	178,115
Construction in Progress	-	-	10,148,420	10,745,213	10,148,420	10,745,213
Buildings and Improvements	863,560	857,787	195,654	221,320	1,059,214	1,079,107
Vehicles and Equipment	2,138,043	2,117,709	925,827	960,346	3,063,870	3,078,055
Infrastructure	173,360	173,360	-	-	173,360	173,360
Electric System	-	-	5,094,575	5,094,575	5,094,575	5,094,575
Sewer System	-	-	2,633,965	2,608,299	2,633,965	2,608,299
Water System	-	-	5,566,361	5,526,391	5,566,361	5,526,391
Total Capital Assets	3,174,963	3,332,744	24,580,006	25,171,348	27,754,969	28,504,092
Total Accumulated Depreciation	(2,783,749)	(2,811,321)	(7,674,970)	(7,939,005)	(10,458,719)	(10,750,326)
Total Net Capital Assets	<u>\$ 391,214</u>	<u>\$ 521,423</u>	<u>\$ 16,905,036</u>	<u>\$ 17,232,343</u>	<u>\$ 17,296,250</u>	<u>\$ 17,753,766</u>

This fiscal year's capital asset addition in the governmental activities was maintenance equipment for \$14,113, playground equipment for \$25,060 and park improvements for \$178,115. The capital asset additions in the business-type activities were sewer system improvements of \$431,621, water system improvements of \$165,172, \$5,543 for equipment and \$1,650 for vehicles. The sewer and water system improvements were still in progress at fiscal year end.

More detailed information about the Village's capital assets is presented in Note F to the financial statements.

Debt

As of December 31, 2017, the Village had \$12,486,685 in bonds and installment purchase agreements outstanding versus \$12,380,273 from the previous year, an increase of \$106,412, as shown in Table 4. The Village did have additional draw downs on their revenue bonds for the water and sewer projects for fiscal year ending December 31, 2017. The increase is offset by the continued scheduled payments on the debt obligations.

VILLAGE OF NEWBERRY--LUCE COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2017

Table 4
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
	Installment Purchases	\$ 5,809	\$ -	\$ -	\$ -	\$ 5,809
Bonds Payable	42,750	-	12,331,714	12,486,685	12,374,464	12,486,685
Total Outstanding Debt	\$ 27,339	\$ -	\$ 703,000	\$ 12,486,685	\$ 12,380,273	\$ 12,486,685

More detailed information about the Village’s long term debt obligations is presented in Note H to the financial statements. In addition to the debt obligations shown in Table 4, the Village had \$60,996 in vested employee benefits payable presented in more detail in Note I to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

In the upcoming year, the Village will again be closely monitoring its budget as revenues will remain relatively the same as the Village continues to try to cut expenses.

CONTACTING THE VILLAGE’S FINANCIAL MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village’s finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village’s office at: 302 E. McMillan Ave, Newberry, MI 49868 or by calling 906-293-3433.

VILLAGE OF NEWBERRY--LUCE COUNTY
 GOVERNMENT-WIDE STATEMENT OF NET POSITION
 December 31, 2017

EXHIBIT A

	<u>PRIMARY GOVERNMENT</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 324,347	\$ 778,790	\$ 1,103,137
Receivables (Net)			
Taxes Receivables	45,342	-	45,342
Accounts (Net)	86,010	478,434	564,444
Due From State	247,704	82,441	330,145
Internal Balance	332,358	-	332,358
Inventory	-	42,507	42,507
Total Current Assets	<u>1,035,761</u>	<u>1,382,172</u>	<u>2,417,933</u>
Non-current Assets			
Restricted Cash	-	464,741	464,741
Long-Term Receivable	3,043	-	3,043
Capital Credits in Co-op	-	626,012	626,012
Capital Assets--Depreciating	337,535	6,471,926	6,809,461
Capital Assets--Non-depreciating	183,888	10,760,417	10,944,305
Total Assets	<u>1,560,227</u>	<u>19,705,268</u>	<u>21,265,495</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows - Changes in Pension Assumptions	54,154	13,538	67,692
Total Deferred Outflows of Resources	<u>54,154</u>	<u>13,538</u>	<u>67,692</u>
Current Liabilities			
Accounts Payable	169,832	181,357	351,189
Accrued Liabilities	241	77,998	78,239
Customer Deposit	-	45,502	45,502
Internal Balance	-	332,358	332,358
Other Liabilities	-	13,203	13,203
Non-current Liabilities			
Bonds Payable--Due Within One Year	-	491,000	491,000
Bonds Payable--Due in More Than One Year	-	11,995,685	11,995,685
Net Pension Liability	1,304,729	327,263	1,631,992
Other Post-Employment Benefits Payable	14,408	406,842	421,250
Vested Employee Benefits Payable--Due Within One Year	4,000	40,000	44,000
Vested Employee Benefits Payable--Due in More Than One Year	828	18,812	19,640
Total Liabilities	<u>1,494,038</u>	<u>13,930,020</u>	<u>15,424,058</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows - Changes in Pension Experience	17,477	4,369	21,846
Deferred Inflows - Changes in Pension Investments	47,481	11,870	59,351
Total Deferred Inflows of Resources	<u>64,958</u>	<u>16,239</u>	<u>81,197</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	521,423	4,745,658	5,267,081
Restricted	372,858	-	372,858
Unrestricted	(838,896)	1,026,889	187,993
Total Net Position	<u>\$ 55,385</u>	<u>\$ 5,772,547</u>	<u>\$ 5,827,932</u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2017

EXHIBIT C

	<u>General</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 130,092	\$ 194,255	\$ 324,347
Receivables			
Taxes Receivable	30,956	14,386	45,342
Accounts (Net)	(453)	86,463	86,010
Due from State	32,158	215,546	247,704
Due from Other Funds	665,297	92,747	758,044
Long-Term Receivable	<u>3,043</u>	<u>-</u>	<u>3,043</u>
Total Assets	<u>\$ 861,093</u>	<u>\$ 603,397</u>	<u>\$ 1,464,490</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 25,659	\$ 144,173	\$ 169,832
Due to Other Funds	339,320	\$ 86,366	425,686
Accrued Liabilities	<u>241</u>	<u>-</u>	<u>241</u>
Total Liabilities	<u>365,220</u>	<u>230,539</u>	<u>595,759</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenues	<u>3,043</u>	<u>43,850</u>	<u>46,893</u>
Total Deferred Inflows of Resources	<u>3,043</u>	<u>43,850</u>	<u>46,893</u>
<u>FUND BALANCE</u>			
Non-spendable for:			
Due from Sewer Fund	579,058	-	579,058
Restricted for:			
Streets	-	140,531	140,531
Fire Capital Purchases	-	28,889	28,889
Fire Operations	-	190,776	190,776
Capital Projects	-	421	421
Unassigned	<u>(86,228)</u>	<u>(31,609)</u>	<u>(117,837)</u>
Total Fund Balance	<u>492,830</u>	<u>329,008</u>	<u>821,838</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 861,093</u>	<u>\$ 603,397</u>	<u>\$ 1,464,490</u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY
 RECONCILIATION OF FUND BALANCE OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF NET POSITION
 December 31, 2017

EXHIBIT C-1

FUND BALANCES---TOTAL GOVERNMENTAL FUNDS	\$ 821,838
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	521,423
Postemployment benefits which do not require use of current financial resources are not reported in the funds.	(14,408)
Pension obligations which are not financial resources and are not reported in the funds.	(1,315,533)
Unavailable revenues provide current resources but are not recorded on the full accrual basis.	46,893
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,828)</u>
Compensated Absences	
Net Position of Governmental Activities	<u><u>\$ 55,385</u></u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended December 31, 2017

EXHIBIT D

	General	Nonmajor Governmental	Total Governmental Funds
Revenues			
Taxes	\$ 241,372	\$ 119,075	\$ 360,447
Licenses and Permits	55	-	55
State Grants	188,224	396,229	584,453
Charges for Services	87,536	90,197	177,733
Interest and Rentals	750	542	1,292
Other Revenue	203,878	-	203,878
Total Revenues	<u>721,815</u>	<u>606,043</u>	<u>1,327,858</u>
Expenditures			
Current			
General Government	503,338	-	503,338
Public Safety	10,198	-	10,198
Public Works	211,366	310,844	522,210
Other	4,428	-	4,428
Capital Outlay	14,113	203,175	217,288
Debt Service			
Principal	48,559	33,560	82,119
Interest and Fiscal Fees	2,149	829	2,978
Total Expenditures	<u>794,151</u>	<u>548,408</u>	<u>1,342,559</u>
Excess of Revenues Over (Under) Expenditures	(72,336)	57,635	(14,701)
Other Financing Sources (Uses)			
Interfund Transfers In	-	43,388	43,388
Interfund Transfers (Out)	(22,943)	(20,445)	(43,388)
Total Other Financing Sources (Uses)	(22,943)	22,943	-
Net Change in Fund Balances	(95,279)	80,578	(14,701)
Fund Balance--January 1, 2017	<u>588,109</u>	<u>248,430</u>	<u>836,539</u>
Fund Balance--December 31, 2017	<u>\$ 492,830</u>	<u>\$ 329,008</u>	<u>\$ 821,838</u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGE IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ending December 31, 2017

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ (14,701)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	217,288
Deduct--Depreciation Expense	(87,079)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Add--Principal Payments on Long-Term Liabilities	48,559
Add--Payments on Capital Leases	13,981
Add--Changes in Accrued Interest	342

Unavailable revenue in the governmental funds is recorded as revenue in the Statement of Activities	43,850
---	--------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds:

Decrease in Compensated Absences	143
Decrease in OPEB Liability	38,626
Changes in pension Liabilities	(59,095)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 201,914

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

VILLAGE OF NEWBERRY--LUCE COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
<u>ASSETS</u>	Electric	Sewer	Water	
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 257,669	\$ 161,565	\$ 359,556	\$ 778,790
Accounts Receivable	205,053	59,892	213,489	478,434
Due from State	-	82,441	-	82,441
Due from Other Funds	333,082	121,254	-	454,336
Inventory	28,532	13,646	329	42,507
Total Current Assets	824,336	438,798	573,374	1,836,508
<u>Non-current Assets</u>				
Restricted Cash	-	20,760	443,981	464,741
Capital Credits in Co-op	626,012	-	-	626,012
Capital Assets--Depreciating	2,166,781	749,481	3,555,664	6,471,926
Capital Assets--Non-depreciating	3,543	4,530,655	6,226,219	10,760,417
Total Non-current Assets	2,796,336	5,300,896	10,225,864	18,323,096
Total Assets	3,620,672	5,739,694	10,799,238	20,159,604
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Outflows--Changes in Pension Assumptions	13,538	-	-	13,538
<u>LIABILITIES</u>				
<u>Current Liabilities</u>				
Accounts Payable	181,357	-	-	181,357
Accrued Interest Payable	7,653	18,292	52,053	77,998
Customer Deposit	45,502	-	-	45,502
Accrued Vacation and Sick Time	22,162	14,371	22,279	58,812
Due to Other Funds	144,596	579,058	63,040	786,694
Other Liabilities	13,203	-	-	13,203
Total Current Liabilities	414,473	611,721	137,372	1,163,566
<u>Non-current Liabilities</u>				
Bond Payable--Due Within One Year	190,000	155,000	146,000	491,000
Bond Payable--Due in More Than One Year	750,000	3,185,685	8,060,000	11,995,685
Net Pension Liability	327,263	-	-	327,263
OPEB Obligation	203,613	203,229	-	406,842
Total Non-current Liabilities	1,470,876	3,543,914	8,206,000	13,220,790
Total Liabilities	1,885,349	4,155,635	8,343,372	14,384,356
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Inflows--Changes in Pension Experience	4,369	-	-	4,369
Deferred Inflows--Changes in Pension Investments	11,870	-	-	11,870
Total Deferred Inflows of Resources	16,239	-	-	16,239
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,230,324	1,939,451	1,575,883	4,745,658
Unrestricted	502,298	(355,392)	879,983	1,026,889
Total Net Position	\$ 1,732,622	\$ 1,584,059	\$ 2,455,866	\$ 5,772,547

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

VILLAGE OF NEWBERRY--LUCE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION--PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2017

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
	Electric	Sewer	Water	
Operating Revenues				
Charges for Services	\$ 2,376,859	\$ 894,843	\$ 672,133	\$ 3,943,835
Total Operating Revenues	2,376,859	894,843	672,133	3,943,835
Operating Expenses				
Salaries and Fringes	546,706	306,042	94,264	947,012
Operating Expenses	24,886	38,626	5,024	68,536
Repairs and Maintenance	6,752	2,134	72	8,958
Professional Fees	138,561	58,593	12,151	209,305
General Insurance	26,663	11,123	17,394	55,180
Utilities	1,293,550	86,242	-	1,379,792
Truck and Equipment Expense	3,639	20,802	9,857	34,298
Other	(8,089)	31,225	61,443	84,579
Depreciation	69,216	59,712	146,271	275,199
Total Operating Expenses	2,101,884	614,499	346,476	3,062,859
Operating Income (Loss)	274,975	280,344	325,657	880,976
Non-operating Revenues (Expenses)				
Gain (Loss) on Disposal of Capital Assets	(1,479)	-	-	(1,479)
Interest Earned on Investments	930	731	1,346	3,007
Interest Expense	(55,292)	(77,464)	(212,937)	(345,693)
Total Non-operating Revenues (Expenses)	(55,841)	(76,733)	(211,591)	(344,165)
Change in Net Position	219,134	203,611	114,066	536,811
Total Net Position--January 1, 2017	1,513,488	1,380,448	2,341,800	5,235,736
Total Net Position--December 31, 2017	\$ 1,732,622	\$ 1,584,059	\$ 2,455,866	\$ 5,772,547

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

VILLAGE OF NEWBERRY--LUCE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2017

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
	Electric	Sewer	Water	
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 2,470,840	\$ 794,734	\$ 604,899	\$ 3,870,473
Cash Payments to Employees for Services and Benefits	(523,161)	(326,077)	(88,652)	(937,890)
Cash Payments to Suppliers for Goods and Services	(1,513,478)	(256,194)	(241,119)	(2,010,791)
Net Cash Provided by Operating Activities	<u>434,201</u>	<u>212,463</u>	<u>275,128</u>	<u>921,792</u>
Cash Flows From Non-capital Financing Activities				
Due From Other Funds	(118,786)	112,443	302,974	296,631
Net Cash Provided by Non-capital Financing Activities	<u>(118,786)</u>	<u>112,443</u>	<u>302,974</u>	<u>296,631</u>
Cash Flows From Capital and Related Financing Activities				
Proceeds from Bonds	-	385,221	300,000	685,221
Acquisition of Capital Assets	-	(438,814)	(165,172)	(603,986)
Capital Contributions	35,592	-	-	35,592
Reduction of Debt	(218,000)	(169,250)	(143,000)	(530,250)
Interest Paid on Bonds	(56,399)	(78,669)	(217,353)	(352,421)
Net Cash Provided by Capital and Related Financing Activities	<u>(238,807)</u>	<u>(301,512)</u>	<u>(225,525)</u>	<u>(765,844)</u>
Cash Flows From Investing Activities				
Interest on Cash Equivalents	930	731	1,346	3,007
Net Cash Provided by Investing Activities	<u>930</u>	<u>731</u>	<u>1,346</u>	<u>3,007</u>
Net Increase (Decrease) in Cash and Cash Equivalents	77,538	24,125	353,923	455,586
Cash and Cash Equivalents at Beginning of Year	<u>180,131</u>	<u>158,200</u>	<u>449,614</u>	<u>787,945</u>
Cash and Cash Equivalents at End of Year	<u>\$ 257,669</u>	<u>\$ 182,325</u>	<u>\$ 803,537</u>	<u>\$ 1,243,531</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 274,975	\$ 280,344	\$ 325,657	\$ 880,976
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	69,216	59,712	146,271	275,199
(Increase) Decrease in Accounts Receivable	93,981	(100,109)	(67,234)	(73,362)
Increase (Decrease) in Accrued Wage Liabilities	23,545	(20,035)	5,612	9,122
Increase (Decrease) in Accounts Payable	(27,516)	(7,449)	(135,178)	(170,143)
Net Cash Provided by Operating Activities	<u>\$ 434,201</u>	<u>\$ 212,463</u>	<u>\$ 275,128</u>	<u>\$ 921,792</u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Newberry (Village) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

REPORTING ENTITY

The Village of Newberry is located in Luce County which covers an area of .98 square miles and operates under a general law Village form of government. The Village provides services to its 1,519 residents in many areas including: public safety (fire), public works, and general government. The Village is governed by a seven-member council, including a president, elected by the citizens of the Village.

In accordance with generally accepted accounting principles and GASB Statement No. 61, "The Financial Reporting Entity," these financial statements present the Village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village reports the following major governmental funds:

- The General Fund 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.

The Village reports the following major proprietary funds:

- The Electric Fund accounts for the electrical operations of the Village.
- The Water Fund accounts for the water operations of the Village.
- The Sewer Fund is designated to separately account for the operations and maintenance according to the sewer system.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

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

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the policy of the Village to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows include both restricted and unrestricted cash and cash equivalents.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Inter-fund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "inter-fund receivables/payables" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the noncurrent portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances."

Deferred Inflows of Resources--Unavailable Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received but not yet earned.

Capital Assets

Capital assets include property, plant and equipment, and infrastructure assets (e.g., streets, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Land Improvements	15 to 30 years	
Buildings and Building Improvements	20 to 40 years	20 to 35 years
Vehicles	3 to 10 years	
Equipment	3 to 10 years	5 to 20 years
Sewer System		20 to 50 years
Water System		20 to 50 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In this category deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources result from three transactions: contributions to the defined pension plan subsequent to the plan's year end through the Village fiscal year end, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings and the changes in assumptions.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that is applicable to a future reporting period. In this category deferred inflows of resources related to the difference between actual and expected experience.

Pensions

For the purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to / deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)--Primary Government

It is the policy of the Village to permit employees to accumulate earned but unused sick and vacation pay benefits. The liability for unpaid accumulated sick leave is time available according to the Village's union contracts and personnel policies. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year-end.

Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Financing Sources (Uses)

The transfers of cash between the various Village funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid; in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- Non-spendable fund balance includes fund balance amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained.
- Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Assigned--includes fund balance amounts that are intended to be used for a specific purpose.
- Committed--includes fund balance amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority.
- Unassigned--includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Village of Newberry reports the following restricted fund balances.

- Major Street Fund - This fund is used to account for revenues from Federal and Michigan Transportation Fund (MTF) monies distributed which are earmarked by law to control expenditures for the construction and maintenance of the major street system.
- Local Street Fund - This fund is used to account for revenues primarily from MTF monies distributed which are earmarked by law to control expenditures for the construction and maintenance of the local street system.
- Fire Capital, Fire Revolving and Fire Millage Funds - These funds are used to account for the fire department equipment, operations and millage receipts.
- TORC and Atlas Park Funds - These funds are used to account for capital projects related to the Tahquamenon Outdoor Recreation Complex and Atlas Park.

The Village of Newberry does not have a formal minimum fund balance policy.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the Village Council for the General Fund and Special Revenue Funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The Village Council monitors and amends the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Ordinance Officer	\$ -	\$ 2,513	\$ (2,513)
Village Hall	52,150	56,552	(4,402)
Public Works			-
Sidewalks	11,770	19,906	(8,136)
Street Lights	19,000	19,624	(624)
Rubbish	71,480	72,730	(1,250)
Other Functions			-
Bad Debt Expense	-	4,428	(4,428)
Debt Service			
Principal Payments	42,750	48,559	(5,809)
Interest Expense	2,050	2,149	(99)
Transfer Out	-	22,943	(22,943)
Local Street Fund			
Alleys	16,400	46,288	(29,888)
Fire Capital Fund			
Principal Payments	23,540	33,560	(10,020)
Fire Revolving Fund			
Public Safety	113,750	115,421	(1,671)

The Village will work towards not exceeding amounts budgeted and make amendments before the expenditures occur.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Fund Deficits

As of December 31, 2017, a deficit existed in the unassigned fund balance (governmental fund) of the General Fund in the amount of \$86,228, in the TORC Fund of \$31,609 and an unrestricted deficit existed at year end in the Sewer Fund in the amount of \$355,392. Public Act 140 of 1971, as amended, requires the Village to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The Village has not yet submitted a formal plan. The Village contends that a deficit elimination plan for the TORC fund is not necessary based on Treasury No. Letter 2016-1 which states in part “For governmental funds other than the General Fund, if the “deferred inflows of resources minus taxes and special assessments receivable” is great enough to cover the “unrestricted fund balance,” no plan is necessary.” The Village will file formal plans for the General Fund and the Sewer Fund.

NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL) 129.91 authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are carried at cost. The Village has designated four banks for the deposit of Village funds. The investment policy adopted by the Village Council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village’s deposit and investment policy is in accordance with statutory authority. At year end, the Village’s deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 324,347	\$ 778,790	\$ 1,103,137
Restricted Cash	-	464,741	464,741
Total	<u>\$ 324,347</u>	<u>\$ 1,243,531</u>	<u>\$ 1,567,878</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts)	\$ 1,567,628
Petty Cash and Cash on Hand	<u>250</u>
Total	<u>\$ 1,567,878</u>

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Village's deposits may not be recovered. The Village does not have a deposit policy for custodial credit risk.

At December 31, 2017, the bank balance of the Village's deposits is \$1,567,879, of which \$423,258 is covered by Federal depository insurance. The remaining \$1,144,621 is uncollateralized.

Restricted Cash

In accordance with Village ordinances, separate bank accounts have been established to create restricted cash balances reserved for the funding of sewer and water bond payments as well as sewer and water repair, replacement, and improvement to the individual systems. As of December 31, 2017, the restricted cash balances are \$20,760 and \$443,981 in the Sewer and Water Funds, respectively.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE D--RECEIVABLES

Accounts Receivable

At December 31, 2017, the accounts receivable for the Governmental Funds (General and Police Funds) are as follows:

	Other Accounts Receivable	Due From State	Net Accounts Receivable
General Fund	\$ (453)	\$ 32,158	\$ 31,705
Major Street Fund	-	19,830	19,830
Local Street Fund	-	7,944	7,944
Fire Revolving Fund	86,463	-	86,463
TORC	-	158,030	158,030
Atlas Park	-	29,742	29,742
Total Governmental Funds	<u>\$ 86,010</u>	<u>\$ 247,704</u>	<u>\$ 333,714</u>

In relation to the Electric, Sewer and Water Funds, the receivables are based on the electrical, sewer and water services provided by the village. The Village has established an allowance for doubtful accounts in the amount of \$96,210 to aid in disposition of old receivables not collected. The allowance is recorded in the Electric Fund. The customer receivable for the Electric Fund is \$205,053 (net of the allowance for doubtful accounts), the receivable for the Sewer Fund is \$59,892, and the receivable for the Water Fund is \$213,489.

In the TORC Fund the amount of \$158,030 Due from State is offset by Deferred Inflows of Resources (unavailable revenue) in the amount of \$43,850 which is the amount of retainage held by the State of Michigan DEQ until the project is completed and the grant is closed out.

NOTE E--PROPERTY TAXES

Property Taxes

The Village's 2017 ad valorem tax is levied and collectible on July 1, 2017. It is the Village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the Village operations. Property taxes are recognized when received. The 2017 State taxable valuation of the Village amounted to \$17,198,994, on which ad valorem taxes levied for all Village purposes are \$360,447. There are 11.2262 mills for general operations and the tax revenue is recognized in the General Fund.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE F--CAPITAL ASSETS

Capital asset activity of the Village's governmental activities for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 5,773	\$ -	\$ -	\$ 5,773
Land Improvements	-	178,115	-	178,115
Subtotal	<u>5,773</u>	<u>178,115</u>	<u>-</u>	<u>183,888</u>
Capital Assets Being Depreciated				
Buildings and Building Improvements	857,787	-	-	857,787
Infrastructure	173,360	-	-	173,360
Equipment	1,853,410	39,173	59,507	1,833,076
Vehicles	284,633	-	-	284,633
Total	<u>3,169,190</u>	<u>39,173</u>	<u>59,507</u>	<u>3,148,856</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	726,142	8,639	-	734,781
Infrastructure	69,344	8,668	-	78,012
Equipment	1,771,870	41,309	59,507	1,753,672
Vehicles	216,393	28,463	-	244,856
Total	<u>2,783,749</u>	<u>87,079</u>	<u>59,507</u>	<u>2,811,321</u>
Net Capital Assets Being Depreciated	<u>385,441</u>	<u>(47,906)</u>	<u>-</u>	<u>337,535</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 391,214</u>	<u>\$ 130,209</u>	<u>\$ -</u>	<u>\$ 521,423</u>

The depreciation expense was \$87,079 during the year as follows:

Governmental Activities	
General Government	\$ 3,445
Public Safety	49,935
Public Works	31,909
Recreation and Culture	<u>1,790</u>
Total Governmental Activities	<u>\$ 87,079</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE F--CAPITAL ASSETS (Continued)

Capital asset activity of the Village's business-type activities for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Sewer Construction in Progress	4,087,373	431,621	-	4,518,994
Water Construction in Progress	6,061,047	165,172	-	6,226,219
Subtotal	<u>10,163,624</u>	<u>596,793</u>	<u>-</u>	<u>10,760,417</u>
Capital Assets Being Depreciated				
Buildings and Improvements	221,320	-	-	221,320
Electric System	5,094,575	-	-	5,094,575
Sewer Distribution System	2,608,299	-	-	2,608,299
Water Distribution System	5,526,391	-	-	5,526,391
Infrastructure	85,526	-	-	85,526
Equipment and Vehicles	880,271	7,192	12,643	874,820
Subtotal	<u>14,416,382</u>	<u>7,192</u>	<u>12,643</u>	<u>14,410,931</u>
Less Accumulated Depreciation for				
Buildings and Improvements	200,721	619	-	201,340
Electric System	3,119,900	54,164	-	3,174,064
Sewer Distribution System	1,824,369	53,956	-	1,878,325
Water Distribution System	1,872,103	139,180	-	2,011,283
Infrastructure	61,544	1,999	-	63,543
Equipment and Vehicles	596,333	25,281	11,164	610,450
Subtotal	<u>7,674,970</u>	<u>275,199</u>	<u>11,164</u>	<u>7,939,005</u>
Net Capital Assets Being Depreciated	<u>6,741,412</u>	<u>(268,007)</u>	<u>1,479</u>	<u>6,471,926</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 16,905,036</u>	<u>\$ 328,786</u>	<u>\$ 1,479</u>	<u>\$ 17,232,343</u>
Business-Type Activities				
Electric	\$ 69,216			
Sewer	59,712			
Water	146,271			
Total Business-Type Activities	<u>\$ 275,199</u>			

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE G--INTERFUND RECEIVABLES AND PAYABLES/TRANSFERS

The inter-fund receivables and payables noted on Exhibit C and Exhibit E for the Village are as follows:

	<u>Due to Other Funds</u>				<u>Total</u>
	<u>General</u>	<u>Non Major Governmental</u>	<u>Electric</u>	<u>Sewer</u>	
<u>Due From other Funds</u>					
General Fund	\$ -	\$ 77,107	\$ 262,213	\$ -	\$ 339,320
Non-Major Governmental	46,489	14,683	25,179	15	86,366
Electric	23,357	-	-	121,239	144,596
Sewer	579,058	-	-	-	579,058
Water	16,393	957	45,690	-	63,040
Total	<u>\$ 665,297</u>	<u>\$ 92,747</u>	<u>\$ 333,082</u>	<u>\$ 121,254</u>	<u>\$ 1,212,380</u>

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

The balance due to the General Fund from the Sewer Fund at December 31, 2017, in the amount of \$579,058 is not expected to be repaid within one year.

The 2017 operating transfers from Exhibit D can be summarized as follows:

<u>Transfers In</u>	<u>Transfers Out</u>		<u>Total</u>
	<u>General</u>	<u>Fire Millage</u>	
Fire Capital	\$ -	\$ 20,445	\$ 20,445
Fire Revolving	22,943	-	22,943
Total Government	<u>\$ 22,943</u>	<u>\$ 20,445</u>	<u>\$ 43,388</u>

Interfund transfers are used to 1) transfer revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; 2) transfer receipts restricted to debt service from the funds collecting the receipts to the debt service funds as debt service payments become due; and 3) transfer unrestricted revenues collected in the General Fund to other funds to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT

The Village issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Electric, Sewer and Water System Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The individual long-term debt of the Village and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/2017</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
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 in 2017	\$ 5,809	\$ -	\$ (5,809)	\$ -	\$ -
2002 General Obligation Bonds, maturing serially to 2017 in annual payments ranging from \$41,250 to \$71,250, bearing interest of 4.4% to 4.8%	42,750	-	\$ (42,750)	-	-
Vested Employee Benefits Payable	<u>4,971</u>	<u>7,689</u>	<u>(7,832)</u>	<u>4,828</u>	<u>4,000</u>
Total Governmental Activities	<u>\$ 53,530</u>	<u>\$ 7,689</u>	<u>\$ (56,391)</u>	<u>\$ 4,828</u>	<u>\$ 4,000</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

	Balance 01/01/17	Additions	(Reductions)	Balance 12/31/17	Due Within One Year
<u>Business-Type Activities</u>					
2002 General Obligation Bonds, maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%	\$ 38,000	\$ -	\$ (38,000)	\$ -	\$ -
2002 General Obligation Bonds, maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%	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%	355,000	-	(50,000)	305,000	55,000
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%	435,000	-	(55,000)	380,000	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%	2,018,000	-	(34,000)	1,984,000	35,000
2005 Electric System Revenue Bonds, maturing serially to 2020 in annual amounts ranging from \$50,000 to \$90,000, bearing interest ranging from 3.0% to 4.5%	330,000	-	(75,000)	255,000	80,000
2009 Water Supply System Revenue Bonds maturing serially to 2048 in annual amounts ranging from \$3,000 to \$16,000, bearing interest of 4.125%	272,000	-	(4,000)	268,000	4,000
\$6,263,000 Water Supply System Revenue Bond, Series 2014	5,759,000	300,000	(105,000)	5,954,000	107,000
\$4,500,000 Sanitary Sewer System Revenue Bond, Series 2014	3,110,464	385,221	(155,000)	3,340,685	155,000
Vested Employee Benefits Payable	65,075	33,679	(39,942)	58,812	40,000
Total Business-Type Activities	\$ 12,396,789	\$ 718,900	\$ (570,192)	\$ 12,545,497	\$ 531,000

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements

The annual requirements to pay the principal and interest on the Village's long-term debt obligations excluding vested employee benefits outstanding at December 31, 2017, are as follows:

<u>Year</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 491,000	\$ 338,504	\$ 829,504
2019	517,000	321,836	838,836
2020	531,000	303,923	834,923
2021	460,000	285,492	745,492
2022	474,000	270,358	744,358
2023-2027	1,901,000	1,165,659	3,066,659
2028-2032	2,087,000	908,619	2,995,619
2032-2037	1,730,685	662,151	2,392,836
2038-2042	1,400,000	476,092	1,876,092
2043-2047	1,370,000	263,036	1,633,036
2048-2052	1,070,000	117,153	1,187,153
2053-2057	455,000	14,578	469,578
Total	<u>\$ 12,486,685</u>	<u>\$ 5,127,401</u>	<u>\$17,614,086</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

The annual electric, sewer and water fund principal and interest required to maturity for the bonds payable outstanding is as follows:

2002 Electric System Capital Improvement Bonds

Date of Issue: August 1, 2002

Amount: \$885,000

Purpose: Electrical System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity November 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
5.00%	2018	\$ 55,000	\$ 15,500	\$ 70,500
5.10%	2019	60,000	12,750	72,750
	2020	60,000	9,690	69,690
	2021	65,000	6,630	71,630
	2022	65,000	3,315	68,315
		<u>\$ 305,000</u>	<u>\$ 47,885</u>	<u>\$ 352,885</u>

Interest is payable semi-annually at the rate indicated on May 1 and November 1.

2003 Electric System Revenue Bonds

Date of Issue: September 30, 2003

Amount: \$965,000

Purpose: Electrical System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity November 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
4.80%	2018	\$ 55,000	\$ 19,065	\$ 74,065
5.00%	2019	60,000	16,425	76,425
	2020	60,000	13,425	73,425
	2021	65,000	10,425	75,425
5.125%	2022	70,000	7,175	77,175
	2023	70,000	3,588	73,588
		<u>\$ 380,000</u>	<u>\$ 70,103</u>	<u>\$ 450,103</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

2005 Electric System Revenue Bonds

Date of Issue: October 1, 2005

Amount: \$985,000

Purpose: Electrical System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity November 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
4.40%	2018	\$ 80,000	\$ 11,353	\$ 91,353
4.45%	2019	85,000	7,833	92,833
4.50%	2020	90,000	4,050	94,050
		<u>\$ 255,000</u>	<u>\$ 23,236</u>	<u>\$ 278,236</u>

2005 Water Supply System Revenue Bonds

Date of Issue: September 30, 2005

Amount: \$2,300,000

Purpose: Water Supply System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity September 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
4.125%	2018	\$ 35,000	\$ 81,840	\$ 116,840
	2019	37,000	80,396	117,396
	2020	39,000	78,870	117,870
	2021	41,000	77,261	118,261
	2022	42,000	75,570	117,570
	2023-2027	245,000	349,965	594,965
	2028-2032	310,000	294,319	604,319
	2033-2037	389,000	224,070	613,070
	2038-2042	492,000	135,836	627,836
	2043-2047	354,000	29,618	383,618
		<u>\$ 1,984,000</u>	<u>\$ 1,427,745</u>	<u>\$ 3,411,745</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

2009 Water Supply System Revenue Bonds

Date of Issue: March 20, 2009

Amount: \$300,000

Purpose: Water Supply System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity September 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
4.125%	2018	\$ 4,000	\$ 11,055	\$ 15,055
	2019	5,000	10,890	15,890
	2020	5,000	10,684	15,684
	2021	5,000	10,477	15,477
	2022	5,000	10,271	15,271
	2023-2027	29,000	48,015	77,015
	2028-2032	36,000	41,458	77,458
	2033-2037	43,000	33,495	76,495
	2038-2042	54,000	23,801	77,801
	2043-2047	66,000	11,674	77,674
	2048-2052	16,000	660	16,660
		<u>\$ 268,000</u>	<u>\$ 212,480</u>	<u>\$ 480,480</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE H--LONG-TERM DEBT (Continued)

2014 Water Supply System Revenue Bonds

Date of Issue: November 21, 2014

Amount: \$6,263,000

Purpose: Water Supply System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity November 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
2.125%	2018	\$ 107,000	\$ 126,523	\$ 233,523
	2019	110,000	124,249	234,249
	2020	112,000	121,911	233,911
	2021	114,000	119,531	233,531
	2022	117,000	117,109	234,109
	2023-2027	622,000	547,252	1,169,252
	2028-2032	691,000	478,253	1,169,253
	2033-2037	768,000	401,668	1,169,668
	2038-2042	854,000	316,455	1,170,455
	2043-2047	950,000	221,744	1,171,744
	2048-2052	1,054,000	116,493	1,170,493
	2053-2057	455,000	14,578	469,578
			<u>\$ 5,954,000</u>	<u>\$ 2,705,766</u>

2014 Sewer System Revenue Bonds

Date of Issue: September 17, 2014

Amount: \$4,485,000

Purpose: Sewage Disposal System

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity October 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
2.5%	2018	\$ 155,000	\$ 73,168	\$ 228,168
	2019	160,000	69,293	229,293
	2020	165,000	65,293	230,293
	2021	170,000	61,168	231,168
	2022	175,000	56,918	231,918
	2023-2027	935,000	216,839	1,151,839
	2028-2032	1,050,000	94,589	1,144,589
	2033-2037	530,685	2,918	533,603
		<u>\$ 3,340,685</u>	<u>\$ 640,186</u>	<u>\$ 3,980,871</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE I--COMPENSATED ABSENCES

Vested Employee Benefits Payable

The Village's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Union employees may not accumulate vacation hours in excess of 280 hours. Union employees who terminate employment for any reason shall have their unused accumulated vacation paid out up to a maximum of 160 hours. Most non-union employees are eligible for vacation pay out upon termination up to 40 hours.

The Village's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked and union agreements. Sick leave is earned by all Village employees at the rate of 12 days annually with each day being made available as of the last day of the month. However, only the union employees hired prior to July 1, 1998 will receive any unused balances upon separation of employment from the Village.

As of December 31, 2017, the Village has an accrued vested employee benefits payable of \$4,828 recorded in the governmental activities and \$58,812 in the business-type activities.

NOTE J—DEFERRED COMPENSATION PLAN

The Village offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account, 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 K--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description: The Village's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Village 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 by accessing the MERS website at www.mersofmich.com.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Benefits Provided:

Table 2	2016 Valuation	2016 Valuation
	01 - General Closed to new hires, <u>Linked to Division HA</u>	02 - Police / Fire: Closed to new hires, <u>Linked to Division HA</u>
Benefit Multiplier:	2.00% Multiplier (No max)	2.25% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	5 years	3 years
Employee Contributions:	0%	0%
Act 88:	No	No
	10 - Sprvsrs: Closed to new hires, linked to Division HA <u>2.50% Multiplier (80% max)</u>	11 - Spvs LT & Pwr: Closed to new hires, Linked to Division HB <u>2.50% Multiplier (80% max)</u>
Benefit Multiplier:	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	5 years	5 years
Employee Contributions:	0%	0%
Act 88:	No	No
	HA - All EE's elig for pen aft 1/1/15: Open Division, <u>Linked to Division 01, 02, 10</u>	HB - All eligible L&P aft 1/1/15 Open Division <u>Linked to Division 11, 12</u>
Benefit Multiplier:	Hybrid Plan - 1.25% Multiplier	Hybrid Plan - 1.25% Multiplier
Normal Retirement Age:	60	60
Vesting:	6 years	6 years
Final Average Compensation:	3 years	3 years
Employee Contributions:	0%	0%
Act 88:	No	No

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Table 2 (Continued)	2016 Valuation
	12 - Genrl LT&Pwr
	Closed to new hires,
	<u>Linked to Division HB</u>
Benefit Multiplier:	2.00% Multiplier (No max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	0%
Act 88:	No

Employees covered by benefit terms: At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>17</u>
Total employees covered by MERS Plan	<u>49</u>

Contributions: The Village is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2016, the Village's contribution rate was \$4,873 for general, \$14 for police and fire, \$5,194 for Supervisors, \$714 for Light & Power Supervisors, \$1,238 for General Light and Power employees, 7.32% for administration eligible after January 1, 2015 and 6.64% for light and power employees eligible after January 1, 2015.

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 annual actuarial valuation performed as of that date.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Actuarial assumptions: The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	3.75% in the long-term
Investment Rate of Return	7.75%, 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 used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study in 2009 – 2013.

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:

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 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances at December 31, 2016	\$4,581,660	\$2,817,984	\$1,763,676
Changes for the Year:			
Service Cost	50,379	-	50,379
Interest on Total Pension Liability	355,645	-	355,645
Difference between expected and actual experience	(6,626)	-	(6,626)
Contributions--Employer	-	160,210	(160,210)
Net investment income	-	364,244	(364,244)
Benefit payments, including refunds	(322,580)	(322,580)	-
Administrative expense	-	(5,780)	5,780
Other Changes*	(12,408)	-	(12,408)
Net changes	64,410	196,094	(131,684)
Balances as of December 31, 2017	<u>\$4,646,070</u>	<u>\$3,014,078</u>	<u>\$1,631,992</u>

Total Pension Liability is found in the annual actuarial valuation on the GASB 68 page & Plan Fiduciary Net Position is found on the 2016 MERS Plan Fiduciary Net Position

*Other changes is an amount necessary to reconcile the 12/31/14 Total Pension Liability number from the GASB 68 section of the valuation with the numbers calculated above. It will vary from year to year, but is necessary to get the

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net Pension Liability at December 31, 2017		\$ 1,631,992	
Change in Net Pension Liability (NPL)	\$ 419,881		\$ (363,583)

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

For the year ended December 31, 2017, the Village recognized pension expense of \$234,079. The Village reported deferred outflows and inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in Assumptions**	\$ 67,692	\$ -
Net difference between projected and actual earnings on pension plan investments**	-	59,351
Differences in Experience**	<u>-</u>	<u>21,846</u>
Total	<u>\$ 67,692</u>	<u>\$ 81,197</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending December 31, 2017.

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

<u>December 31</u>	<u>Amount</u>
2018	\$ 53,395
2019	7,550
2020	(45,346)
2021	(29,104)

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE L--POST-EMPLOYMENT BENEFITS

Health Care Insurance Benefits

The Village pays monthly health insurance premiums for retirees per the retirement agreements between the board and the retirees. The Village's policy is to finance this benefit on a pay-as-you-go basis.

Funding Status and Funding Progress

For the fiscal year ended December 31, 2017, the Village has estimated the cost of providing retiree healthcare benefits based upon the provisions of the retirement agreement described above. The computed required contribution and actual funding are summarized as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Annual Required Contribution (ARC)	<u>\$ 48,586</u>	<u>\$ 24,917</u>	<u>\$ 73,503</u>
Annual OPEB Cost	<u>48,586</u>	<u>24,917</u>	<u>73,503</u>
Amount Contributed			
Payments of Current Premiums	<u>(91,455)</u>	<u>(53,483)</u>	<u>(144,938)</u>
Increase (Decrease) in Net OPEB Obligation	(42,869)	(28,566)	(71,435)
Adjustment for Interest	4,243	32,252	36,495
OPEB Obligation--Beginning of Year	<u>53,034</u>	<u>403,156</u>	<u>456,190</u>
OPEB Obligation--End of Year	<u>\$ 14,408</u>	<u>\$ 406,842</u>	<u>\$ 421,250</u>

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

	<u>2017</u>
Annual OPEB Costs	\$ 73,503
Percentage Contributed	197%
Net OPEB Obligation	\$ 421,250

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE L--POSTEMPLOYMENT BENEFITS (Continued)

The funding status as of December 31, 2017, for the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2015	\$ -	\$ 1,177,202	\$ 1,177,202	0%	\$ 672,376	175%

The schedule of funding progress immediately following the notes to the financial statements 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.

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 M--RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, and errors and omissions and employee injuries (workers' compensation). The Village has purchased commercial insurance coverage through various policies for general liability, property, vehicle 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 years.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2017

NOTE N—CAPITAL CREDITS IN COOPERATIVE

In prior years, the Village of Newberry Electric Fund purchased 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 \$35,592 in capital distributions. As of December 31, 2017, the Village has capital credits outstanding of \$626,012. 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.

NOTE O--UPCOMING REPORTING CHANGE

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting for OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to be included in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Village will after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Village is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

VILLAGE OF NEWBERRY--LUCE COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

EXHIBIT H

For the Fiscal Year Ended December 31, 2017

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive Negative
	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 260,760	\$ 232,700	\$ 241,372	\$ 8,672
Licenses and Permits	100	100	55	(45)
State Grants	210,900	185,400	188,224	2,824
Charge for Services	105,400	78,400	87,536	9,136
Interest and Rentals	800	800	750	(50)
Other Revenue	483,700	316,000	203,878	(112,122)
Total Revenues	<u>1,061,660</u>	<u>813,400</u>	<u>721,815</u>	<u>(91,585)</u>
Expenditures				
General Government	505,150	549,265	503,338	45,927
Public Safety	4,820	26,820	10,198	16,622
Public Works	249,750	269,140	211,366	57,774
Other	-	-	4,428	(4,428)
Capital Outlay	5,900	22,000	14,113	7,887
Debt Service	2,050	44,800	50,708	(5,908)
Total Expenditures	<u>767,670</u>	<u>912,025</u>	<u>794,151</u>	<u>117,874</u>
Excess of Revenues Over (Under) Expenditures	<u>293,990</u>	<u>(98,625)</u>	<u>(72,336)</u>	<u>26,289</u>
Other Financing Sources (Uses)				
Operating Transfers (Out)	<u>(293,990)</u>	<u>-</u>	<u>(22,943)</u>	<u>(22,943)</u>
Total Other Financing Sources (Uses)	<u>(293,990)</u>	<u>-</u>	<u>(22,943)</u>	<u>(22,943)</u>
Net Change in Fund Balance	-	(98,625)	(95,279)	3,346
Fund Balance--January 1, 2017	<u>588,109</u>	<u>588,109</u>	<u>588,109</u>	<u>-</u>
Fund Balance--December 31, 2017	<u>\$ 588,109</u>	<u>\$ 489,484</u>	<u>\$ 492,830</u>	<u>\$ 3,346</u>

VILLAGE OF NEWBERRY--LUCE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE VILLAGE'S
NET PENSION LIABILITY AND RELATION RATIOS*
For the Fiscal Year Ending December 31, 2017

SCHEDULE 1

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service Cost	\$ 57,323	\$ 56,321	\$ 50,379
Difference between expected and actual experience	(58,770)	(55,600)	(6,626)
Changes in assumptions	196,558	203,073	-
Interest	341,332	347,836	355,645
Benefit payments including employee refunds	(294,636)	(308,458)	(322,580)
Other Changes	<u>(3,924)</u>	<u>(155,433)</u>	<u>(12,408)</u>
Net Change in Total Pension Liability	237,883	87,739	64,410
Total Pension Liability--Beginning	<u>4,256,038</u>	<u>4,493,921</u>	<u>4,581,660</u>
Total Pension Liability--Ending	<u>\$ 4,493,921</u>	<u>\$ 4,581,660</u>	<u>\$ 4,646,070</u>
Plan Fiduciary Net Position			
Contributions--employer	\$ 139,838	\$ 243,380	\$ 160,210
Contributions--employees	-	-	-
Net Investment Income	(40,303)	292,473	364,244
Benefit payments including employee refunds	(294,636)	(308,458)	(322,580)
Administrative expense	(5,987)	(5,778)	(5,780)
Other Changes	<u>(1)</u>	<u>1</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(201,089)	221,618	196,094
Plan Fiduciary Net Position--Beginning	<u>2,797,455</u>	<u>2,596,366</u>	<u>2,817,984</u>
Plan Fiduciary Net Position--Ending	<u>\$ 2,596,366</u>	<u>\$ 2,817,984</u>	<u>\$ 3,014,078</u>
Employer Net Pension Liability	<u>\$ 1,897,555</u>	<u>\$ 1,763,676</u>	<u>\$ 1,631,992</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	58%	62%	65%
Covered Employee Payroll	\$ 675,376	\$ 675,376	\$ 647,812
Employer's Net Pension Liability as a percentage of covered employee payroll	281%	261%	252%

Notes to schedule:

Above dates are based on measurement date,
which may not necessarily tie to the fiscal year.

*10-year schedule as required by GASB Statement No. 68 will be built prospectively
upon implementation of the standard.

VILLAGE OF NEWBERRY--LUCE COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF VILLAGE'S CONTRIBUTIONS
 For the Fiscal Year Ending December 31, 2017

SCHEDULE 2

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarial Determined Contributions*	\$ 153,379	\$ 139,838	\$ 104,488	\$ 102,254	\$ 105,944	\$ 105,451	\$ 112,339	\$ 91,335	\$ 94,806	\$ 99,704
Contributions in Relation to the actuarially determined contribution	243,379	139,838	104,488	274,254	105,944	105,451	112,339	91,335	94,806	99,704
Contribution deficiency (excess)	\$ (90,000)	\$ -	\$ -	\$ (172,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 647,812	\$ 675,376	\$ 537,871	\$ 477,186	\$ 516,904	\$ 540,440	\$ 564,470	\$ 555,767	\$ 490,762	\$ 547,771
Contributions as a percentage of covered employee payroll	38%	21%	19%	57%	20%	20%	20%	16%	19%	18%

Notes to Schedule:

Actuarial valuation information relative to the determination of contributions:

Valuation Date Actuarially determined contribution rates are calculated as of December 31, each year which is prior to the beginning of the fiscal year in which the contributions are required

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3 to 4%
Salary Increases	3.75%, including inflation
Investment rate of return	7.75%
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female / 50% Male RP-2014 Group Annuity Mortality Table

VILLAGE OF NEWBERRY--LUCE COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS
 For the Fiscal Year Ended December 31, 2017

SCHEDULE 3

POSTEMPLOYMENT HEALTHCARE BENEFITS

Required Supplementary Information--Schedule of Funding Progress

The funding status as of December 31, 2017, the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
2009	\$ -	\$ 1,677,903	\$ 1,677,903	0%	Not Available	-
2012	-	1,975,558	1,975,558	0%	Not Available	-
2015	-	1,177,202	1,177,202	0%	672,376	175%

VILLAGE OF NEWBERRY--LUCE COUNTY
 SCHEDULE OF BOND COVENANT CASH RESERVES
 December 31, 2017

SCHEDULE 4

	<u>Required Balance</u>	<u>Actual Balance</u>
Water Fund - Restricted Cash		
Operation and Maintenance Funds--2014	\$ 139,853	-
Bond and Interest Redemption		
Series 2005 Revenue Bond	38,947	33,310
Series 2009 Revenue Bond	5,018	780
Series 2014 Revenue Bond	-	-
Bond Reserves		
Series 2005 Revenue Bond	130,000	130,000
Series 2009 Revenue Bond	14,400	12,800
Series 2014 Revenue Bond	70,200	46,800
Repair, Replacement and Improvement Accounts		
Series 2005 Revenue Bond	202,940	175,195
Series 2014 Revenue Bond	67,644	45,096
	<u>\$ 669,002</u>	<u>443,981</u>
Sewer Fund - Restricted Cash		
Operation and Maintenance Funds -- 2014	\$ 57,663	20,760
Bond and Interest Redemption		
Series 2014 Revenue Bond	57,042	-
Bond Reserves		
Series 2014 Revenue Bond	46,943	-
Repair, Replacement and Improvement Accounts		
Series 2014 Revenue Bond	-	-
	<u>\$ 161,648</u>	<u>20,760</u>

VILLAGE OF NEWBERRY--LUCE COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 December 31, 2017

EXHIBIT I

	Special Revenue Funds					Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Revolving	Fire Millage	TORC	Atlas Park	
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 68,631	\$ 5,686	\$ 14,814	\$ 46,334	\$ 42,444	\$ 16,346	\$ -	\$ 194,255
Taxes Receivable	-	9,953	-	-	4,433	-	-	14,386
Accounts Receivable--Other	-	-	-	86,463	-	-	-	86,463
Due from State	19,830	7,944	-	-	-	158,030	29,742	215,546
Due from Other Funds	16,926	37,222	14,075	12,867	11,657	-	-	92,747
Total Assets	105,387	60,805	28,889	145,664	58,534	174,376	29,742	603,397
<u>LIABILITIES</u>								
Accounts Payable	-	-	-	-	-	144,173	-	144,173
Due to Other Funds	14,277	11,384	-	555	12,867	17,962	29,321	86,366
Total Liabilities	14,277	11,384	-	555	12,867	162,135	29,321	230,539
<u>DEFERRED INFLOWS OF RESOURCES</u>								
Unavailable Revenues	-	-	-	-	-	43,850	-	43,850
Total Deferred Inflows of Resources	-	-	-	-	-	43,850	-	43,850
<u>FUND BALANCES</u>								
Restricted								-
Streets	91,110	49,421	-	-	-	-	-	140,531
Fire Capital Purchases	-	-	28,889	-	-	-	-	28,889
Fire Operations	-	-	-	145,109	45,667	-	-	190,776
Capital Projects	-	-	-	-	-	-	421	421
Unassigned	-	-	-	-	-	(31,609)	-	(31,609)
Total Fund Balances	91,110	49,421	28,889	145,109	45,667	(31,609)	421	329,008
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 105,387	\$ 60,805	\$ 28,889	\$ 145,664	\$ 58,534	\$ 174,376	\$ 29,742	\$ 603,397

VILLAGE OF NEWBERRY--LUCE COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended December 31, 2017

EXHIBIT J

	Special Revenue Funds					Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Revolving	Fire Millage	TORC	Atlas Park	
Revenues								
Taxes	\$ -	\$ 82,382	\$ -	\$ -	\$ 36,693	\$ -	\$ -	\$ 119,075
State Grants	150,878	88,154	-	13,275	-	114,180	29,742	396,229
Charges for Services	-	-	20,411	69,786	-	-	-	90,197
Interest and Rentals	-	-	44	302	64	132	-	542
Total Revenues	150,878	170,536	20,455	83,363	36,757	114,312	29,742	606,043
Expenditures								
Public Works	60,258	121,453	237	115,421	-	9,214	4,261	310,844
Debt Service	-	-	34,389	-	-	-	-	34,389
Capital Outlay	-	-	-	-	-	178,115	25,060	203,175
Total Expenditures	60,258	121,453	34,626	115,421	-	187,329	29,321	548,408
Excess of Revenue Over (Under) Expenditures	90,620	49,083	(14,171)	(32,058)	36,757	(73,017)	421	57,635
Other Financing Sources (Uses)								
Interfund Transfers In	-	-	20,445	22,943	-	-	-	43,388
Interfund Transfers (Out)	-	-	-	-	(20,445)	-	-	(20,445)
Total Other Financing Sources (Uses)	-	-	20,445	22,943	(20,445)	-	-	22,943
Net Change in Fund Balances	90,620	49,083	6,274	(9,115)	16,312	(73,017)	421	80,578
Fund Balance--January 1, 2017	490	338	22,615	154,224	29,355	41,408	-	248,430
Fund Balance--December 31, 2017	\$ 91,110	\$ 49,421	\$ 28,889	\$ 145,109	\$ 45,667	\$ (31,609)	\$ 421	\$ 329,008

VILLAGE OF NEWBERRY--LUCE COUNTY
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended December 31, 2017

EXHIBIT K

<u>REVENUES</u>	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Taxes				
Current Property Taxes	\$ 198,060	\$ 170,000	\$ 182,369	\$ 12,369
Current Property Taxes--Garbage	24,600	24,600	19,705	(4,895)
Personal Property Taxes	-	-	31,278	31,278
Payment in Lieu of Taxes	31,500	31,500	1,500	(30,000)
Administrative Fees	6,600	6,600	6,520	(80)
Total Taxes	260,760	232,700	241,372	8,672
Licenses and Permits				
Licenses and Permits	100	100	55	(45)
Total Licenses and Permits	100	100	55	(45)
State Grants				
State Revenue Sharing	210,900	185,400	188,224	2,824
Total State Grants	210,900	185,400	188,224	2,824
Charges for Services				
Admin Fee--Sewage O&M	27,000	-	2,951	2,951
Charges for Services--Refuse	76,500	76,500	78,529	2,029
Sales	1,900	1,900	3,107	1,207
Franchise Agreement	-	-	2,949	2,949
Total Charges for Services	105,400	78,400	87,536	9,136
Interest and Rentals				
Interest	800	800	750	(50)
Total Interest and Rentals	800	800	750	(50)
Other Revenue				
Reimbursement Street Overhead	97,000	97,000	46,029	(50,971)
Reimburse--Equipment Rental	142,000	142,000	157,090	15,090
Reimbursement Admin Salary	145,600	-	-	-
Reimbursement Admin Overhead	96,400	75,000	-	(75,000)
Reimbursement Overhead	700	-	-	-
Reimbursements and Refunds	2,000	2,000	759	(1,241)
Total Other Revenue	483,700	316,000	203,878	(112,122)
Total Revenues	1,061,660	813,400	721,815	(91,585)

VILLAGE OF NEWBERRY--LUCE COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended December 31, 2017

EXHIBIT L

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 15,750	\$ 17,320	\$ 14,254	\$ 3,066
Village President	4,400	4,400	3,895	505
Village Manager	51,000	61,000	57,710	3,290
Village Administrative	90,100	115,100	114,047	1,053
Village Clerk	12,500	12,500	10,512	1,988
Audit	8,750	8,750	7,670	1,080
Ordinance Officer	-	-	2,513	(2,513)
Village Treasurer	11,650	12,200	9,801	2,399
Village Hall	50,500	52,150	56,552	(4,402)
Attorney	6,100	10,250	9,668	582
Fringe Benefits	254,400	255,595	216,716	38,879
Total General Government	505,150	549,265	503,338	45,927
Public Safety				
Fire Department	4,820	26,820	10,198	16,622
Total Public Safety	4,820	26,820	10,198	16,622
Public Works				
DPW	2,200	2,200	1,583	617
Sidewalks	4,700	11,770	19,906	(8,136)
Street Lights	19,000	19,000	19,624	(624)
Sewage Disposal	61,650	61,650	32,595	29,055
Motor Pool	93,100	100,850	64,702	36,148
Storm Sewers	2,100	2,190	226	1,964
Rubbish	67,000	71,480	72,730	(1,250)
Total Public Works	249,750	269,140	211,366	57,774
Other Functions				
Bad Debt Expense	-	-	4,428	(4,428)
Total Other Functions	-	-	4,428	(4,428)
Capital Outlay	5,900	22,000	14,113	7,887
Total Capital Outlay	5,900	22,000	14,113	7,887
Debt Service				
Principal Payments	-	42,750	48,559	(5,809)
Interest Expense	2,050	2,050	2,149	(99)
Total Debt Service	2,050	44,800	50,708	(5,908)
Other Financing Uses				
Budget Stabilization	183,385	-	-	-
Operating Transfers (Out) Fire	20,520	-	-	-
Operating Transfers (Out) Fire Millage	35,200	-	-	-
Operating Transfers (Out) Fire Revolving	37,385	-	22,943	(22,943)
Operating Transfers (Out) Local Streets	17,500	-	-	-
Total Other Financing Uses	293,990	-	22,943	(22,943)
Total Expenditures and Other Financing Uses	\$ 1,061,660	\$ 912,025	\$ 817,094	\$ 94,931



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

September 20, 2018

Village of Newberry
302 E. McMillan Ave
Newberry, Michigan 49868

RE: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Dear Council Members:

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, Luce County, Michigan, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Village of Newberry's basic financial statements, and have issued our report thereon dated September 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Newberry'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Newberry'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 Village of Newberry's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses, listed as Findings 2017-001, 2017-002 and 2017-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses listed in as Finding 2017-004 to be a significant deficiency.

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. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Newberry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Schedule of Findings and Responses listed as Findings 2017-005, 2017-006, 2017-007, 2017-008 and 2017-009.

Village of Newberry's Responses to Findings

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

Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

September 20, 2018

Village of Newberry
302 E. McMillan Ave
Newberry, Michigan 49868

RE: Report to Those Charged With Governance

Dear Council Members:

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, Luce County, Michigan, for the fiscal year ended December 31, 2017, and have issued our report thereon dated September 20, 2018. Professional standards require that we provide you with information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated December 13, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Newberry. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Newberry's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of 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. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the 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 the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on May 14, 2018, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Newberry are described in Note A to the financial statements. We noted no transactions entered into by the Village of Newberry during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the governmental activities in the government-wide statements relate to depreciation, the allowance for doubtful accounts, the net pension liability, the liability for other postemployment benefits, and the estimate of the current portion of vested employee benefits. Management's estimate of depreciation is based on the straight line method in accordance with Generally Accepted Accounting Principles. Management's estimate of the allowance for doubtful accounts is based on uncollectible utility receivables. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Village's negotiation with its bargaining units and resolutions of the Village Council.

For retiree health care, the estimates and assumption are based on the alternative measurement method actuarial valuation. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation, the allowance for doubtful accounts, the net pension liability, the liability for other post-employment benefits, and the current portion of vested employee benefits payable in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no 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 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.

Disagreements 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 the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 20, 2018.

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 Village of Newberry'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 Village of Newberry's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Council and management of the Village of Newberry and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager

Community Engagement and Finance Division

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Village of Newberry's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Newberry's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that could result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Listed below are material weaknesses and significant deficiencies in the internal control.

MATERIAL WEAKNESSES

Preparation of Financial Statements in Accordance with GAAP

Finding 2017-001

Condition: As many small and medium-sized governmental entities do, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered to be a part of the Village's *internal* controls.

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Village personnel to prepare them internally.

Effect: The Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Village council evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and determine if it is in the best interests of the Village to outsource this duty to its external auditors. If the Village continues to rely on its external auditors to prepare the financial statements, we recommend the council designate a responsible Village official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response: Due to the small size and limited staffing, the Village of Newberry has historically hired an external independent auditor to prepare the financial statements. Management continues to review and accept responsibility for the completed financial statement. At this point, the Village believes this is a better system of internal control and provides a greater level of quality control.

Material Audit Adjustments

Finding 2017-002

Condition: During our audit, we identified and proposed numerous material adjustments, which were approved and posted by management, to adjust the Village's general ledger to the audited balances. These adjustments included recording the effect of prior year accruals for receivables and payables, recording current year accruals for receivables and payables, balancing interfund transactions and properly allocating tax revenue.

Cause: The accounting staff does not have the necessary skills, knowledge and expertise to understand how to maintain and reconcile the general ledger.

Effect: The Village accounting records were initially misstated by amounts material to the financial statements.

Criteria: Management is responsible for maintaining the Village's accounting records in accordance with generally accepted accounting principles (GAAP).

Recommendation: We recommend that the Village council provide for appropriate training for its accounting personnel so they can attain the necessary skills, knowledge and expertise to begin to assume the responsibility for properly adjusting and reconciling all Village accounts throughout the fiscal year and at fiscal year-end to provide more accurate data to the council for decision making and to reduce the cost of the external audit.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

MATERIAL WEAKNESSES (Continued)

Management Response: The Village accounting staff has the ability to perform the day to day accounting functions including cash receipts and disbursements, processing accounts payable, preparing bills for customers, and performing monthly bank reconciliations. In the past, the Village had not been able to hire staff with the necessary expertise to perform a full close of the accounting records at year-end and adequately prepare for the audit. This practice has been in place since at least 2009. Moving forward, we will evaluate whether to continue to rely on outside service providers to perform this function or seek to hire staff with the appropriate level of accounting expertise.

Generally Accepted Accounting Principles—Finance Manager--Accruals Finding 2017-003

Condition: Accruals (accounts payable, delinquent taxes) were not recorded for the governmental funds prior to the audit adjustments and accruals from the prior year audit were not properly reversed.

Cause: In the past, the Village had hired an accounting firm to perform the closing entries prior to the audit being performed. Therefore, Village staff did not understand how to record current year accruals and reverse prior year accruals.

Effect: Numerous adjusting entries had to be made to properly reflect accruals at year end.

Criteria: Generally Accepted Accounting Principles (GAAP) require governmental funds to be maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify the amount of the revenue in monetary terms. Current expenditures are generally recorded when the fund liability is incurred, if measurable. GAAP also requires that receivables expected to be received within 60 days and accounts payable be recorded at fiscal year- end to properly match the fiscal year's revenues and expenditures.

Recommendation: We recommend that the Village record accruals at the end of each fiscal year and that such accruals be properly reversed in the following fiscal year. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts within the general ledger.

Management Response: See answer to Finding 2017-002. Due to staffing limitations, the Village has since at least 2009, relied on outside service providers to perform this function for the Village. Moving forward, we will evaluate whether to continue to rely on outside service providers to perform this function or seek to hire staff with the appropriate level of accounting expertise.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

SIGNIFICANT DEFICIENCIES

Reconciliation of Accounting Records

Finding 2017-004

Condition: Recording errors are occurring and not being discovered because there are no reconciliations being performed.

Cause: In the past, the Village had hired an accounting firm to perform the closing entries and account reconciliations prior to the audit being performed. Therefore, Village staff did not understand what entries were necessary to reconcile account details to general ledger balances at year end.

Effect: The auditors had to reconcile accounting records to general ledger detail and propose reconciling entries for numerous accounts.

Criteria: A comparison of the amounts recorded in the accounting records of the accounting staff to the records of the treasurer is not performed by the accounting staff. Subsidiary ledgers are not being compared to general ledgers amounts

Recommendation: We recommend that the accounting staff keep a complete set of accounting records based on source documentation utilizing the uniform chart of accounts prescribed by the State Treasurer. The records must be reconciled to the treasurer's records and to subsidiary ledgers.

Management Response: See answers to Findings 2017-002 and 2017-003. Due to our limited staffing, the Village has relied on outside service providers since at least 2009, to supplement our internal staff and perform these functions for us. We will evaluate whether to continue to rely on outside service providers to supplement this function or seek to hire staff with the appropriate level of accounting expertise.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

STATUTORY COMPLIANCE

Budget Violations--Expenditures in Excess of Appropriations

Finding 2017-005

Condition: Our examination of procedures used by the Village to adopt and maintain operating budgets for the Village’s budgetary funds revealed the following instances of non-compliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Village’s 2017 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2017 expenditures exceeded the Village’s approved budget allocations for some General Fund and Special Revenue Fund activities.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Ordinance Officer	\$ -	\$ 2,513	\$ (2,513)
Village Hall	52,150	56,552	(4,402)
Public Works			-
Sidewalks	11,770	19,906	(8,136)
Street Lights	19,000	19,624	(624)
Rubbish	71,480	72,730	(1,250)
Other Functions			-
Bad Debt Expense	-	4,428	(4,428)
Debt Service			
Principal Payments	42,750	48,559	(5,809)
Interest Expense	2,050	2,149	(99)
Transfer Out	-	22,943	(22,943)
Local Street Fund			
Alleys	16,400	46,288	(29,888)
Fire Capital Fund			
Principal Payments	23,540	33,560	(10,020)
Fire Revolving Fund			
Public Safety	113,750	115,421	(1,671)

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

STATUTORY COMPLIANCE (Continued)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Cause: The Village did not have accurate financial statements during the fiscal year to allow for timely decision making and budget amendments.

Effect: The Village had several instances of actual expenditures in excess of budgeted expenditures.

Directive: We direct the Village to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management Response: The Village appropriately passed a comprehensive budget amendment in late November 2017. Unfortunately, due to the internal accounting limitations noted in other findings, our projections on final year end balances were understated in some cases. The Village completely updated and renovated the budget document and the budget creation process for 2018. Management is monitoring budget to actual results on a regular basis and intends to pass a comprehensive budget amendment prior to December 31, 2018.

Fund Deficit—Noncompliance with PA 2 of 1968

Finding 2017-006

Condition: The Village has a deficit in its fund balance for the TORC Fund as of December 31, 2017, in the amount of \$31,609 which is contrary to state statutes.

Criteria: Non-compliance with PA 2 of 1968 (MCL 141.437), as amended, Expenditures in Excess of Available Revenues:

“If, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, the chief administrative officer or fiscal officer shall present to the legislative body recommendations which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year. The recommendations shall include proposals for reducing appropriations from the fund for budgetary centers in a manner that would cause the total of appropriations to not be greater than the total of revised estimated revenues of the fund, or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. The recommendations shall recognize the requirements of state law and the provisions of collective bargaining agreements.”

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

STATUTORY COMPLIANCE (Continued)

The Village failed to limit expenditures to available revenues for fiscal year 2017.

Cause: The Village did not have accurate financial records throughout the fiscal year.

Effect: The Village is not compliant with state statutes.

Directive: We direct the Village to review budget to actual results on a regular basis and make amendments as necessary to prevent spending in excess of available resources.

Management Response: Following a late journal entry for an outstanding grant receivable, this fund no longer has a deficit per the terms of Numbered Letter 2016-01 and a deficit elimination plan is not required. Further, although the fund balance is negative, it is more than offset by a deferred inflow for receivables not collected within the period of availability. On a full accrual basis, this fund would not have a deficit period. The Village understands why the auditor feels compelled to make this a finding, but contends this fund is being adequately managed.

Net Position / Fund Balance Deficit – Non-compliance with PA 140 of 1971 Finding 2017-007

Condition: The Village has a deficit in its unassigned fund balance for the General Fund as of December 31, 2017 in the amount of \$86,228 and in its unrestricted net position for the Sewer Fund as of December 31, 2017, in the amount of \$355,392 which is contrary to state statutes.

Criteria: Non-compliance with PA 140 of 1971, as amended, Failure to File Reports and Deficit Elimination Plans:

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The Village failed to formulate and file a deficit elimination plan within 90 days after the end of the fiscal year to correct the deficit condition (MCL 141.921(2)). The deficit elimination plan is to be filed with the state treasurer.

Cause: The Village did not have accurate financial records throughout the fiscal year.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

STATUTORY COMPLIANCE (Continued)

Effect: The Village is not compliant with state statutes.

Directive: We direct the Village to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended.

Management Response: The Sewer Fund has been in a deficit since 2012. Twice previously, in 2012 and 2014, the Village was required by the Department of Treasury to file deficit elimination plans; however, the Village did not follow through on those plans and the deficit has not only remained but has grown over time. Exacerbating the Sewer Fund's financial troubles, the Village has not been able to collect outstanding receivables from a neighboring Township who is the Sewer Fund's second largest customer.

The deficit in the General Fund is the result of the General Fund providing long-term financial support to the Sewer Fund. The General Fund has adequate fund balance in total, but it is currently classified as non-spendable according to GASB Statement No. 54. When the Sewer Fund is able to repay General Fund, the General Fund's deficit will be eliminated.

In an effort to help solve the Sewer Fund's financial problems, the Village did raise sewer rates in August 2017. Thanks to the rate increase and other management efforts, the Sewer Fund has begun seeing financial improvements. In order to comply with State law, Village management will prepare a deficit elimination plan, Council will approve it, and it will be submitted to the State. This plan will include reviewing the rate structure on a regular basis, adjusting the rates as necessary to correct this issue, collecting the outstanding receivable from the neighboring Township, and ultimately repaying the General Fund.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

OTHER MATTERS

Village Council--Violations of Bond Requirements—Annual Audit

Finding 2017-008

Condition: The Village has not submitted an audit report for the year ended December 31, 2017 within the required timeline.

Criteria: According to General Covenants of the Sanitary Sewer System Revenue Bond, Series 2014, the Village is required to have an annual audit performed by an independent certified public accountant. The covenant also states that “the audit shall be completed and so made available not later than six (6) months after the close of each operating year”.

Cause: The Village did not get their fiscal year ended December 31, 2017 information finalized in a timely manner for the audit prior to the filing deadline.

Effect: The Village is in non-compliance with Bond covenants. Whereas the Village did not submit the audit for the fiscal year ended December 31, 2017 by June 30, 2017, the audit is now considered delinquent.

Directive: We direct the Village to make every effort to comply with this requirement in the next audit cycle.

Management Response: The Village will make every effort to ensure that the accounting records are maintained on a timely basis to ensure that their next required audit is submitted within the required time limits.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2017

OTHER MATTERS (Continued)

Delinquent Utility Receivables

Finding 2017-009

Condition: The Village has significant delinquent utility receivables outstanding.

Cause: The Village's policies and procedures for collections on delinquent utility receivables are not being followed.

Criteria: The Village has policies and procedures established for collections of delinquent utility billings, including the addition of such delinquent billings to tax rolls.

Effect: The Village has significant amounts of receivables over a year old with no collections procedures in place.

Recommendation: We recommend that the Village revisit their collection procedures and policies related to delinquent utility receivable to ensure that all monies due to the Village are received.

Management Response: The Village is in negotiations with our largest delinquent customer, Pentland Township. For other delinquent customers, the Village will follow through to ensure that proper procedures are being followed in the future to make sure delinquent utility billings are added to tax rolls for collection for property owners or are being sent to a debt collection vendor for renters.