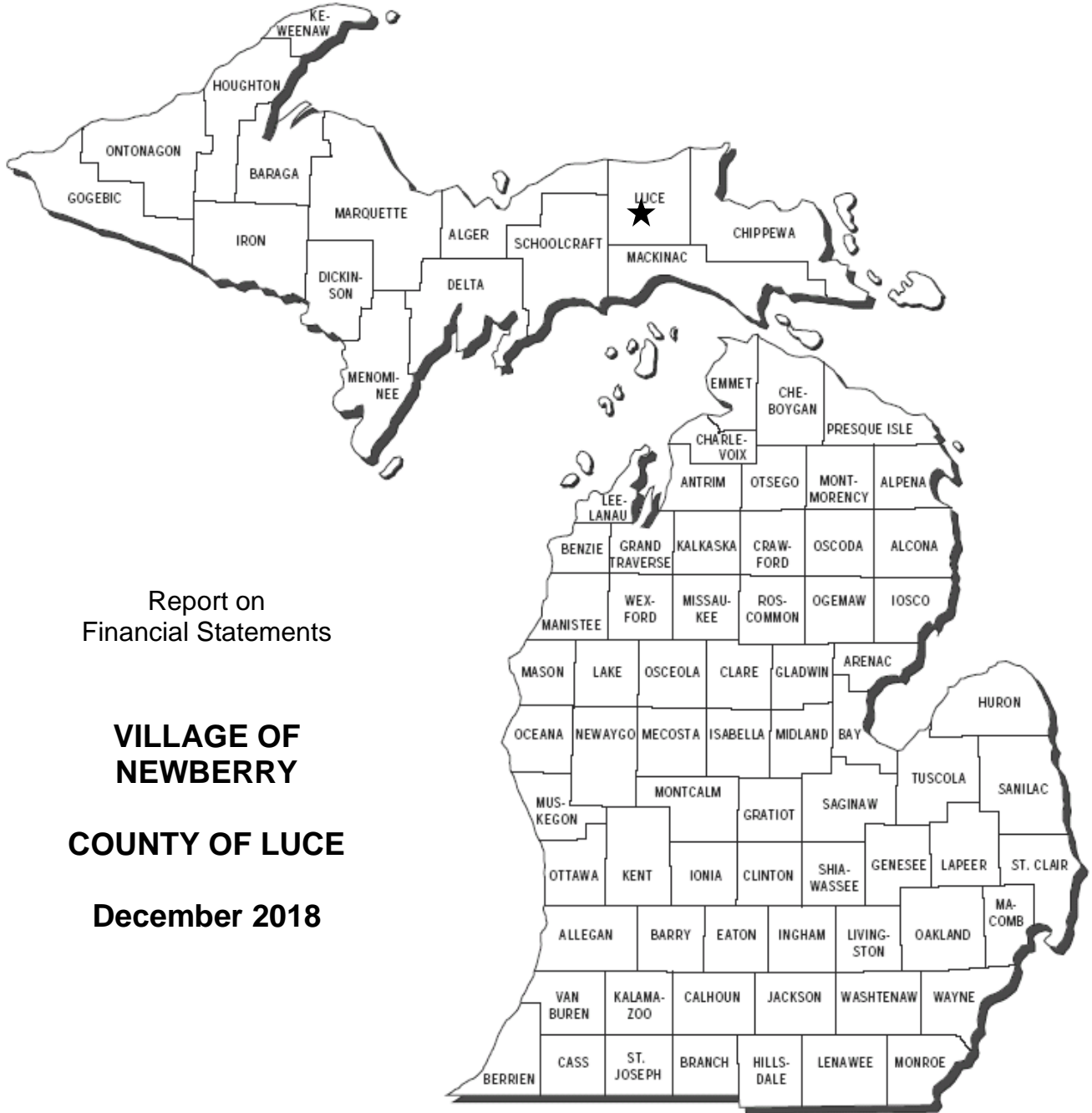


STATE OF MICHIGAN

Gretchen Whitmer, Governor

DEPARTMENT OF TREASURY

Rachael Eubanks, State Treasurer



Report on
Financial Statements

**VILLAGE OF
NEWBERRY**

COUNTY OF LUCE

December 2018

VILLAGE OF NEWBERRY—LUCE COUNTY

VILLAGE COUNCIL
(April 27, 2020)

Lori A. Stokes
President

Dennis Hendrickson
President Pro-Tem

Daniel Hardenbrook
Trustee

Catherine Freese
Trustee

Kip Cameron
Trustee

Jeffrey Puckett
Trustee

Vacant
Trustee

Allison Watkins
Interim Village Manager

Terese Schummer
Clerk

VILLAGE POPULATION--2010
1,519

TAXABLE VALUATION--2018
\$17,478,481



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RACHAEL EUBANKS
STATE TREASURER

April 27, 2020

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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note L to the basic financial statements, in 2018, the Village adopted the new accounting guidance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes accounting and financial reporting standards for defined postemployment benefits other than pensions provided to the employees of the governmental employers through other postemployment plans. Our opinion is not modified with respect to this matter.

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, schedule of changes in the net OPEB liability and the schedule of OPEB contributions 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 April 27, 2020, 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--LUCE COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018

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, 2018.

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, 2018

- 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 related data.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018

THE VILLAGE AS A WHOLE

The Village's combined net position increased from \$5,827,932 to \$5,976,842 or \$148,910 for the year ended December 31, 2018. 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	
	2017	2018	2017	2018	2017	2018
Current and Other Assets	\$ 1,035,761	\$ 1,182,408	\$ 1,382,172	\$ 1,920,254	\$ 2,417,933	\$ 3,102,662
Non-current Assets	524,466	546,773	18,323,096	18,012,047	18,847,562	18,558,820
Total Assets	1,560,227	1,729,181	19,705,268	19,932,301	21,265,495	21,661,482
Deferred Outflows of Resources	54,154	166,841	13,538	41,710	67,692	208,551
Current Liabilities	170,073	45,065	650,418	829,869	820,491	874,934
Non-current Liabilities	1,323,965	1,603,431	13,279,602	13,392,879	14,603,567	14,996,310
Total Liabilities	1,494,038	1,648,496	13,930,020	14,222,748	15,424,058	15,871,244
Deferred Inflows of Resources	64,958	17,558	16,239	4,389	81,197	21,947
Net Position						
Net Investment in Capital Assets	521,423	543,730	4,745,658	4,827,474	5,267,081	5,371,204
Restricted	372,858	516,986	-	-	372,858	516,986
Unrestricted	(838,896)	(830,748)	1,026,889	919,400	187,993	88,652
Total Net Position	\$ 55,385	\$ 229,968	\$ 5,772,547	\$ 5,746,874	\$ 5,827,932	\$ 5,976,842

The net position of the Village's governmental activities increased by 315%, or \$174,583 (\$229,968 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. There was no significant change in unrestricted net position.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended December 31, 2018

The net position of the Village's business-type activities decreased by .45%, or \$25,673 (\$5,746,874 compared to \$5,772,547). The net investment in capital assets increased with the water and sewer projects that are being financed through a USDA bonds offset by depreciation of the electric, sewer and water systems. The decrease in the unrestricted net position was due to implementation of GASB Statement No. 75 for Other Post-Employment Benefits.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2018	2017	2018	2017	2018
Program Revenue						
Charges for Services	\$ 177,733	\$ 172,586	\$ 3,943,835	\$ 4,470,041	\$ 4,121,568	\$ 4,642,627
Operating Grants and Contributions	13,275	2,650	-	-	13,275	2,650
Capital Grants and Contributions	187,772	-	-	-	187,772	-
General Revenue						
Property Taxes	360,447	420,280	-	-	360,447	420,280
State-Shared Revenues	427,256	534,265	-	-	427,256	534,265
Unrestricted Investment Ea	1,292	4,574	3,007	3,146	4,299	7,720
Other	203,933	452,448	(1,479)	-	202,454	452,448
Transfers	-	-	-	-	-	-
Total Revenues	<u>1,371,708</u>	<u>1,586,803</u>	<u>3,945,363</u>	<u>4,473,187</u>	<u>5,317,071</u>	<u>6,059,990</u>
Program Expenses						
General Government	513,128	583,377	-	-	513,128	583,377
Public Safety	60,133	76,823	-	-	60,133	76,823
Public Works	554,119	720,636	-	-	554,119	720,636
Other	4,428	3,767	-	-	4,428	3,767
Recreation and Cultural	1,790	1,604	-	-	1,790	1,604
Interest on Debt	36,196	-	-	-	36,196	-
Sewer	-	-	691,963	941,665	691,963	941,665
Water	-	-	559,413	924,770	559,413	924,770
Electric	-	-	2,157,176	2,069,157	2,157,176	2,069,157
Total Expenses	<u>1,169,794</u>	<u>1,386,207</u>	<u>3,408,552</u>	<u>3,935,592</u>	<u>4,578,346</u>	<u>5,321,799</u>
Change in Net Position	<u>\$ 201,914</u>	<u>\$ 200,596</u>	<u>\$ 536,811</u>	<u>\$ 537,595</u>	<u>\$ 738,725</u>	<u>\$ 738,191</u>

VILLAGE OF NEWBERRY--LUCE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018

Governmental Activities

The total revenues for the Village's governmental activities increased by 16% (\$215,095), while expenses increased 19% (\$216,413). The primary reason for the increase in revenues was due to an increase in property taxes and state grants. The primary reason for the increase in 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 increased by 13% (\$527,824), while expenses increased 15% (\$527,040). The Village increased their utility rates in Water and Sewer during 2017. Fiscal year 2018 was the first full year under the new billing rates. The Village also received a SAW grant during 2018. The increase in the expenditures is mainly due to the increase in depreciation due to water and sewer system upgrades and expenditures related to the SAW grant.

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 \$664,207, which is more than last year's \$492,831. The primary reasons for the governmental funds' increase mirror the governmental activities analysis highlighted in the prior paragraph. The General Fund was the Village's only major governmental fund in fiscal year end December 31, 2018.

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. Variations in the Sewer, Water and Electric Funds parallel changes previously noted in the business-type activities.

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.

VILLAGE OF NEWBERRY--LUCE COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended December 31, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2018, the Village had \$17,484,385 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 \$269,381.

Table 3
Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2018	2017	2018	2017	2018
Land	\$ 5,773	\$ 5,773	\$ 15,204	\$ 15,204	\$ 20,977	\$ 20,977
Land Improvements	178,115	178,115	-	-	178,115	178,115
Construction in Progress	-	-	10,745,213	4,658,815	10,745,213	4,658,815
Buildings and Improvements	857,787	869,687	221,320	221,320	1,079,107	1,091,007
Vehicles and Equipment	2,117,709	2,206,561	960,346	974,209	3,078,055	3,180,770
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	-	-	2,608,299	2,608,299	2,608,299	2,608,299
Water System	-	-	5,526,391	11,752,610	5,526,391	11,752,610
Total Capital Assets	3,332,744	3,433,496	25,171,348	25,325,032	28,504,092	28,758,528
Total Accumulated Depreciation	(2,811,321)	(2,889,766)	(7,939,005)	(8,384,377)	(10,750,326)	(11,274,143)
Total Net Capital Assets	\$ 521,423	\$ 543,730	\$17,232,343	\$16,940,655	\$17,753,766	\$17,484,385

This fiscal year’s capital asset addition in the governmental activities included new accounting software, bathroom improvements for the fire hall and disposal bins. The capital asset additions in the business-type activities were sewer system improvements, water system improvements and accounting software. The sewer 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, 2018, the Village had \$12,113,181 in bonds and installment purchase agreements outstanding versus \$12,486,685 from the previous year, a decrease of \$373,504, as shown in Table 4. The Village did have additional draw downs on their revenue bond for the sewer project for fiscal year ending December 31, 2018. 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, 2018

Table 4
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2018	2017	2018	2017	2018
Installment Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds Payable	<u>-</u>	<u>-</u>	<u>12,486,685</u>	<u>12,113,181</u>	<u>12,486,685</u>	<u>12,113,181</u>
Total Outstanding Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,486,685</u>	<u>\$ 12,113,181</u>	<u>\$ 12,486,685</u>	<u>\$ 12,113,181</u>

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 \$29,244 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, 2018

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	\$ 408,331	\$ 1,346,090	\$ 1,754,421
Receivables (Net)			
Taxes Receivables	48,919	-	48,919
Accounts (Net)	132,779	521,364	654,143
Due From State	122,704	52,800	175,504
Internal Balance	469,675	-	469,675
Total Current Assets	<u>1,182,408</u>	<u>1,920,254</u>	<u>3,102,662</u>
Non-current Assets			
Restricted Cash	-	445,380	445,380
Long-Term Receivable	3,043	-	3,043
Capital Credits in Co-op	-	626,012	626,012
Capital Assets--Depreciating	359,842	12,266,636	12,626,478
Capital Assets--Non-depreciating	183,888	4,674,019	4,857,907
Total Assets	<u>1,729,181</u>	<u>19,932,301</u>	<u>21,661,482</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows - Changes in Pension Investments	166,841	41,710	208,551
Total Deferred Outflows of Resources	<u>166,841</u>	<u>41,710</u>	<u>208,551</u>
Current Liabilities			
Accounts Payable	41,538	227,780	269,318
Accrued Liabilities	(555)	77,925	77,370
Due to State	4,082	-	4,082
Customer Deposit	-	44,251	44,251
Internal Balance	-	469,675	469,675
Other Liabilities	-	10,238	10,238
Non-current Liabilities			
Bonds Payable--Due Within One Year	-	517,000	517,000
Bonds Payable--Due in More Than One Year	-	11,596,181	11,596,181
Net Pension Liability	1,563,492	391,954	1,955,446
Other Post-Employment Benefits Payable	35,938	862,501	898,439
Vested Employee Benefits Payable--Due Within One Year	4,001	16,800	20,801
Vested Employee Benefits Payable--Due in More Than One Year	-	8,443	8,443
Total Liabilities	<u>1,648,496</u>	<u>14,222,748</u>	<u>15,871,244</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows - Changes in Pension Experience	17,558	4,389	21,947
Total Deferred Inflows of Resources	<u>17,558</u>	<u>4,389</u>	<u>21,947</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	543,730	4,827,474	5,371,204
Restricted	516,986	-	516,986
Unrestricted	(830,748)	919,400	88,652
Total Net Position	<u>\$ 229,968</u>	<u>\$ 5,746,874</u>	<u>\$ 5,976,842</u>

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

VILLAGE OF NEWBERRY--LUCE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2018

EXHIBIT C

	General	Non-major Governmental	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 161,812	\$ 246,519	\$ 408,331
Receivables			
Taxes Receivable	33,403	15,516	48,919
Accounts (Net)	7,078	125,701	132,779
Due from State	83,933	38,771	122,704
Due from Other Funds	792,224	406,332	1,198,556
Long-Term Receivable	3,043	-	3,043
Total Assets	<u>\$1,081,493</u>	<u>\$ 832,839</u>	<u>\$ 1,914,332</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 25,897	\$ 15,641	\$ 41,538
Due to Other Funds	388,901	339,980	728,881
Accrued Liabilities	(555)	-	(555)
Due to State	-	4,082	4,082
Total Liabilities	<u>414,243</u>	<u>359,703</u>	<u>773,946</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenues	3,043	-	3,043
Total Deferred Inflows of Resources	<u>3,043</u>	<u>-</u>	<u>3,043</u>
<u>FUND BALANCE</u>			
Non-spendable for:			
Due from Sewer Fund	383,602	-	383,602
Restricted for:			
Streets	-	292,795	292,795
Fire Capital Purchases	-	28,926	28,926
Fire Operations	-	183,164	183,164
Unassigned	280,605	(31,749)	248,856
Total Fund Balance	<u>664,207</u>	<u>473,136</u>	<u>1,137,343</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,081,493</u>	<u>\$ 832,839</u>	<u>\$ 1,914,332</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, 2018

EXHIBIT C-1

FUND BALANCES---TOTAL GOVERNMENTAL FUNDS	\$ 1,137,343
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	543,730
Postemployment benefits which do not require use of current financial resources are not reported in the funds.	(35,938)
Pension obligations which are not financial resources and are not reported in the funds.	(1,414,209)
Unavailable revenues provide current resources but are not recorded on the full accrual basis.	3,043
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,001)</u>
Compensated Absences	
Net Position of Governmental Activities	<u><u>\$ 229,968</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, 2018

EXHIBIT D

	General	Nonmajor Governmental	Total Governmental Funds
Revenues			
Taxes	\$ 290,488	\$ 129,792	\$ 420,280
Licenses and Permits	590	-	590
State Grants	302,475	278,290	580,765
Charges for Services	67,499	105,087	172,586
Interest and Rentals	3,568	1,006	4,574
Other Revenue	426,858	25,000	451,858
Total Revenues	<u>1,091,478</u>	<u>539,175</u>	<u>1,630,653</u>
Expenditures			
Current			
General Government	480,858	-	480,858
Public Safety	44,136	-	44,136
Public Works	308,388	379,411	687,799
Other	1,604	-	1,604
Capital Outlay	85,116	15,636	100,752
Total Expenditures	<u>920,102</u>	<u>395,047</u>	<u>1,315,149</u>
Excess of Revenues Over (Under) Expenditures	171,376	144,128	315,504
Fund Balance--January 1, 2018	<u>492,831</u>	<u>329,008</u>	<u>821,839</u>
Fund Balance--December 31, 2018	<u>\$ 664,207</u>	<u>\$ 473,136</u>	<u>\$ 1,137,343</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, 2018

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ 315,504

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	100,752
Deduct--Depreciation Expense	(78,445)

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	827
Decrease in OPEB Liability	4,484
Changes in pension Liabilities	<u>(98,676)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 200,596

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, 2018

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
	Electric	Sewer	Water	
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 443,476	\$ 197,809	\$ 704,805	\$ 1,346,090
Accounts Receivable	215,343	202,834	103,187	521,364
Due from State	-	52,800	-	52,800
Due from Other Funds	51,435	29	-	51,464
Total Current Assets	710,254	453,472	807,992	1,971,718
Non-current Assets				
Restricted Cash	-	-	445,380	445,380
Capital Credits in Co-op	626,012	-	-	626,012
Capital Assets--Depreciating	2,090,741	692,645	9,483,250	12,266,636
Capital Assets--Non-depreciating	3,543	4,670,476	-	4,674,019
Total Non-current Assets	2,720,296	5,363,121	9,928,630	18,012,047
Total Assets	3,430,550	5,816,593	10,736,622	19,983,765
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Outflows--Changes in Pension Investments	41,710	-	-	41,710
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	172,514	43,438	11,828	227,780
Accrued Interest Payable	6,168	20,620	51,137	77,925
Customer Deposit	44,251	-	-	44,251
Accrued Vacation and Sick Time	7,474	11,321	6,448	25,243
Due to Other Funds	13,451	383,602	124,086	521,139
Other Liabilities	9,179	826	233	10,238
Total Current Liabilities	253,037	459,807	193,732	906,576
Non-current Liabilities				
Bond Payable--Due Within One Year	205,000	160,000	152,000	517,000
Bond Payable--Due in More Than One Year	545,000	3,143,181	7,908,000	11,596,181
Net Pension Liability	391,954	-	-	391,954
OPEB Obligation	431,250	431,251	-	862,501
Total Non-current Liabilities	1,573,204	3,734,432	8,060,000	13,367,636
Total Liabilities	1,826,241	4,194,239	8,253,732	14,274,212
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Inflows--Changes in Pension Experience	4,389	-	-	4,389
Total Deferred Inflows of Resources	4,389	-	-	4,389
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,344,284	2,059,940	1,423,250	4,827,474
Unrestricted	297,346	(437,586)	1,059,640	919,400
Total Net Position	\$ 1,641,630	\$ 1,622,354	\$ 2,482,890	\$ 5,746,874

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, 2018

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
	Electric	Sewer	Water	
Operating Revenues				
Charges for Services	\$ 2,258,586	\$ 1,260,970	\$ 950,485	\$ 4,470,041
Total Operating Revenues	2,258,586	1,260,970	950,485	4,470,041
Operating Expenses				
Salaries and Fringes	292,833	281,535	226,231	800,599
Operating Expenses	67,164	193,414	12,024	272,602
Repairs and Maintenance	10,802	7,067	6,338	24,207
Professional Fees	184,726	89,395	29,882	304,003
General Insurance	8,126	22,662	6,905	37,693
Utilities	1,191,385	77,146	-	1,268,531
Truck and Equipment Expense	20,166	8,755	7,466	36,387
Other	161,138	113,761	114,222	389,121
Depreciation	80,661	61,458	303,253	445,372
Total Operating Expenses	2,017,001	855,193	706,321	3,578,515
Operating Income (Loss)	241,585	405,777	244,164	891,526
Non-operating Revenues (Expenses)				
Interest Earned on Investments	1,021	816	1,309	3,146
Interest Expense	(52,156)	(86,472)	(218,449)	(357,077)
Total Non-operating Revenues (Expenses)	(51,135)	(85,656)	(217,140)	(353,931)
Change in Net Position	190,450	320,121	27,024	537,595
Total Net Position--January 1, 2018	1,732,622	1,584,059	2,455,866	5,772,547
Restatement of Beginning Net Position (Note)	(281,442)	(281,826)	-	(563,268)
Beginning Net Position--Restated	1,451,180	1,302,233	2,455,866	5,209,279
Total Net Position--December 31, 2018	\$ 1,641,630	\$ 1,622,354	\$ 2,482,890	\$ 5,746,874

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, 2018

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES			Total Enterprise Funds
	ENTERPRISE FUNDS			
	Electric	Sewer	Water	
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 2,247,045	\$ 1,145,025	\$ 1,060,787	\$ 4,452,857
Cash Payments to Employees for Services and Benefits	(336,657)	(334,920)	(242,062)	(913,639)
Cash Payments to Suppliers for Goods and Services	(1,656,398)	(468,762)	(164,776)	(2,289,936)
Net Cash Provided by Operating Activities	<u>253,990</u>	<u>341,343</u>	<u>653,949</u>	<u>1,249,282</u>
Cash Flows From Non-capital Financing Activities				
Inventory Reductions	28,533	13,646	330	42,509
Due From Other Funds	150,525	(74,231)	61,046	137,340
Net Cash Provided by Non-capital Financing Activities	<u>179,058</u>	<u>(60,585)</u>	<u>61,376</u>	<u>179,849</u>
Cash Flows From Capital and Related Financing Activities				
Proceeds from Bonds	-	149,120	-	149,120
Acquisition of Capital Assets	(4,621)	(144,442)	(4,621)	(153,684)
Capital Contributions	-	-	-	-
Reduction of Debt	(190,000)	(186,624)	(146,000)	(522,624)
Interest Paid on Bonds	(53,641)	(84,144)	(219,365)	(357,150)
Net Cash Provided by Capital and Related Financing Activities	<u>(248,262)</u>	<u>(266,090)</u>	<u>(369,986)</u>	<u>(884,338)</u>
Cash Flows From Investing Activities				
Interest on Cash Equivalents	1,021	816	1,309	3,146
Net Cash Provided by Investing Activities	<u>1,021</u>	<u>816</u>	<u>1,309</u>	<u>3,146</u>
Net Increase (Decrease) in Cash and Cash Equivalents	185,807	15,484	346,648	547,939
Cash and Cash Equivalents at Beginning of Year	257,669	182,325	803,537	1,243,531
Cash and Cash Equivalents at End of Year	<u>\$ 443,476</u>	<u>\$ 197,809</u>	<u>\$ 1,150,185</u>	<u>\$ 1,791,470</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 241,585	\$ 405,777	\$ 244,164	\$ 891,526
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	80,661	61,458	303,253	445,372
(Increase) Decrease in Accounts Receivable	(11,541)	(115,945)	110,302	(17,184)
Increase (Decrease) in Accrued Wage Liabilities	(43,824)	(53,385)	(15,831)	(113,040)
Increase (Decrease) in Accounts Payable	(12,891)	43,438	12,061	42,608
Net Cash Provided by Operating Activities	<u>\$ 253,990</u>	<u>\$ 341,343</u>	<u>\$ 653,949</u>	<u>\$ 1,249,282</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, 2018

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 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.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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 in governmental and enterprise funds 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, 2018

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, 2018

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			
Village Manager	\$ 77,345	\$ 77,628	\$ (283)
Village Treasurer	12,467	12,574	(107)
Public Works			
DPW	137,590	137,643	(53)
Rubbish	76,586	76,724	(138)
Capital Outlay	20,525	85,116	(64,591)
Fire Revolving Fund			
Public Safety	126,650	143,939	(17,289)
Capital Outlay	-	11,900	(11,900)

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, 2018

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

Fund Deficits

As of December 31, 2018, a deficit existed in the unassigned fund balance (governmental fund) of the TORC Fund in the amount of \$25,702, in the Atlas Park Fund of \$6,047 and an unrestricted deficit existed at year end in the Sewer Fund in the amount of \$437,586. 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 will file a formal plan for 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	\$ 408,331	\$ 1,346,090	\$ 1,754,421
Restricted Cash	-	445,380	445,380
Total	<u>\$ 408,331</u>	<u>\$ 1,791,470</u>	<u>\$ 2,199,801</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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)	\$2,199,551
Petty Cash and Cash on Hand	<u>250</u>
Total	<u>\$2,199,801</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, 2018, the bank balance of the Village's deposits is \$2,347,066, of which \$521,058 is covered by Federal depository insurance. The remaining \$1,826,008 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, 2018, the restricted cash balance was \$445,380 in the Water Fund.

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE D--RECEIVABLES

Accounts Receivable

At December 31, 2018, the accounts receivable for the Governmental Funds are as follows:

	Other Accounts <u>Receivable</u>	Due From <u>State</u>	Net Accounts <u>Receivable</u>
General Fund	\$ 7,078	\$ 83,933	\$ 91,011
Major Street Fund	-	27,637	27,637
Local Street Fund	-	11,134	11,134
Fire Revolving Fund	<u>125,701</u>	<u>-</u>	<u>125,701</u>
Total Governmental Funds	<u>\$ 132,779</u>	<u>\$ 122,704</u>	<u>\$ 255,483</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 \$6,373 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 \$215,343 (net of the allowance for doubtful accounts), the receivable for the Sewer Fund is \$202,834, and the receivable for the Water Fund is \$103,187.

NOTE E--PROPERTY TAXES

Property Taxes

The Village's 2018 ad valorem tax is levied and collectible on July 1, 2018. 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 2018 State taxable valuation of the Village amounted to \$17,478,481, on which ad valorem taxes levied for all Village purposes are \$420,280. 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, 2018

NOTE F--CAPITAL ASSETS

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

Governmental Activities	Beginning Balance	Additions	Deductions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 5,773	\$ -	\$ -	\$ 5,773
Land Improvements	<u>178,115</u>	<u>-</u>	<u>-</u>	<u>178,115</u>
Subtotal	<u>183,888</u>	<u>-</u>	<u>-</u>	<u>183,888</u>
Capital Assets Being Depreciated				
Buildings and Building Improvements	857,787	11,900	-	869,687
Infrastructure	173,360	-	-	173,360
Equipment	1,833,076	88,852	-	1,921,928
Vehicles	<u>284,633</u>	<u>-</u>	<u>-</u>	<u>284,633</u>
Total	3,148,856	100,752	-	3,249,608
Less Accumulated Depreciation				
Buildings and Building Improvements	734,781	8,788	-	743,569
Infrastructure	78,012	8,668	-	86,680
Equipment	1,753,672	50,577	-	1,804,249
Vehicles	<u>244,856</u>	<u>10,412</u>	<u>-</u>	<u>255,268</u>
Total	<u>2,811,321</u>	<u>78,445</u>	<u>-</u>	<u>2,889,766</u>
Net Capital Assets Being Depreciated	<u>337,535</u>	<u>22,307</u>	<u>-</u>	<u>359,842</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 521,423</u>	<u>\$ 22,307</u>	<u>\$ -</u>	<u>\$ 543,730</u>

The depreciation expense was \$78,445 during the year as follows:

Governmental Activities	
General Government	\$ 9,154
Public Safety	32,687
Public Works	32,837
Recreation and Culture	<u>3,767</u>
Total Governmental Activities	<u>\$ 78,445</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Sewer Construction in Progress	4,518,994	139,821		4,658,815
Water Construction in Progress	6,226,219	-	6,226,219	-
Subtotal	10,760,417	139,821	6,226,219	4,674,019
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	6,226,219	-	11,752,610
Infrastructure	85,526	-	-	85,526
Equipment and Vehicles	874,820	13,863.00	-	888,683
Total	14,410,931	6,240,082	-	20,651,013
Less Accumulated Depreciation				
Buildings and Improvements	201,340	1,080	-	202,420
Electric System	3,174,064	54,164	-	3,228,228
Sewer Distribution System	1,878,325	53,956	-	1,932,281
Water Distribution System	2,011,283	294,835	-	2,306,118
Infrastructure	63,543	1,999	-	65,542
Equipment and Vehicles	610,450	39,338	-	649,788
Total	7,939,005	445,372	-	8,384,377
Net Capital Assets Being Depreciated	6,471,926	5,794,710	-	12,266,636
Business-Type Activities Total				
Capital Assets--Net of Depreciation	<u>\$ 17,232,343</u>	<u>\$ 5,934,531</u>	<u>\$ 6,226,219</u>	<u>\$ 16,940,655</u>

The depreciation expense was \$445,372 during the year as follows:

Business-Type Activities	
Electric	\$ 80,661
Sewer	61,458
Water	<u>303,253</u>
Total Business-Type Activities	<u>\$ 445,372</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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>Water</u>	
<u>Due from Other Funds</u>						
General Fund	\$ -	\$ 272,999	\$ 13,451	\$ 383,602	\$ 122,172	\$ 792,224
Non-Major Governmental	388,901	15,517	-	-	1,914	406,332
Electric	-	51,435	-	-	-	51,435
Sewer	-	29	-	-	-	29
Total	<u>\$388,901</u>	<u>\$ 339,980</u>	<u>\$13,451</u>	<u>\$ 383,602</u>	<u>\$124,086</u>	<u>\$1,250,020</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, 2018, in the amount of \$383,602 is not expected to be repaid within one year.

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>Governmental Activities</u>	Beginning Balance			Ending Balance	Due Within One Year
	<u>01/01/2018</u>			<u>(Reductions)</u>	
Vested Employee Benefits Payable	\$ 4,828	\$ (49,051)	\$48,224	\$ 4,001	\$ 4,001
Total Governmental Activities	<u>\$ 4,828</u>	<u>\$ (49,051)</u>	<u>\$48,224</u>	<u>4,001</u>	<u>\$ 4,001</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE H--LONG-TERM DEBT (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance 01/01/2018</u>	<u>(Reductions)</u>	<u>Additions</u>	<u>Ending Balance 12/31/2018</u>	<u>Due Within One Year</u>
2002 Limited Tax General Obligation Bonds maturing serially to 2022 in annual amounts ranging from \$25,000 to \$65,000 bearing interest from 4.35% to 5.10%	\$ 305,000	\$ (55,000)	\$ -	\$ 250,000	\$ 60,000
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%	380,000	(55,000)	-	325,000	60,000
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%	1,984,000	(35,000)	-	1,949,000	37,000
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%	255,000	(80,000)	-	175,000	85,000
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%	268,000	(4,000)	-	264,000	5,000
2014 Water Supply System Revenue Bond, Series 2014	5,954,000	(107,000)	-	5,847,000	110,000
2014 Sanitary Sewer System Revenue Bond, Series 2014	3,340,685	(186,624)	149,120	3,303,181	160,000
Vested Employee Benefits Payable	58,812	(76,623)	43,054	25,243	16,800
Total Business-Type Activities	<u>\$ 12,545,497</u>	<u>\$ (599,247)</u>	<u>\$ 192,174</u>	<u>\$ 12,138,424</u>	<u>\$ 533,800</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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, 2018, are as follows:

Year	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 517,000	\$ 335,073	\$ 852,073
2020	531,000	317,210	848,210
2021	460,000	298,780	758,780
2022	474,000	283,645	757,645
2023	418,000	267,943	685,943
2024-2028	1,879,000	1,180,609	3,059,609
2029-2033	2,147,000	919,844	3,066,844
2034-2038	1,655,181	640,127	2,295,308
2039-2043	1,444,000	435,423	1,879,423
2044-2048	1,281,000	225,523	1,506,523
2049-2053	1,076,000	94,095	1,170,095
2054-2057	231,000	4,909	235,909
Total	<u>\$12,113,181</u>	<u>\$ 5,003,181</u>	<u>\$17,116,362</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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>
5.10%	2019	\$ 60,000	\$ 12,750	\$ 72,750
	2020	60,000	9,690	69,690
	2021	65,000	6,630	71,630
	2022	<u>65,000</u>	<u>3,315</u>	<u>68,315</u>
		<u>\$ 250,000</u>	<u>\$ 32,385</u>	<u>\$ 282,385</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>
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	<u>70,000</u>	<u>3,588</u>	<u>73,588</u>
		<u>\$ 325,000</u>	<u>\$ 51,038</u>	<u>\$ 376,038</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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>
4.45%	2019	\$ 85,000	\$ 7,833	\$ 92,833
4.50%	2020	90,000	4,050	94,050
		<u>\$ 175,000</u>	<u>\$ 11,883</u>	<u>\$ 186,883</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%	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	44,000	73,838	117,838
	2024-2028	257,000	339,859	596,859
	2029-2033	325,000	281,531	606,531
	2034-2038	407,000	208,024	615,024
	2039-2043	516,000	115,541	631,541
	2044-2047	241,000	15,015	256,015
		<u>\$1,949,000</u>	<u>\$1,345,905</u>	<u>\$3,294,905</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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%	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	5,000	10,065	15,065
	2024-2028	31,000	46,819	77,819
	2029-2033	37,000	39,971	76,971
	2034-2038	45,000	31,721	76,721
	2039-2043	56,000	21,574	77,574
	2044-2048	70,000	8,951	78,951
		<u>\$ 264,000</u>	<u>\$ 201,423</u>	<u>\$ 465,423</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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%	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	119,000	114,623	233,623
	2024-2028	636,000	534,034	1,170,034
	2029-2033	705,000	463,569	1,168,569
	2034-2038	785,000	385,348	1,170,348
	2039-2043	872,000	298,308	1,170,308
	2044-2048	970,000	201,556	1,171,556
	2049-2053	1,076,000	94,095	1,170,095
	2054-2057	231,000	4,909	235,909
		<u>\$ 5,847,000</u>	<u>\$ 2,579,242</u>	<u>\$ 8,426,242</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%	2019	\$ 160,000	\$ 82,530	\$ 242,530
	2020	165,000	78,580	243,580
	2021	170,000	74,455	244,455
	2022	175,000	70,205	245,205
	2023	180,000	65,830	245,830
	2024-2028	955,000	259,898	1,214,898
	2029-2033	1,080,000	134,773	1,214,773
	2034-2037	418,181	15,034	433,215
		<u>\$ 3,303,181</u>	<u>\$ 781,305</u>	<u>\$ 4,084,486</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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, 2018, the Village has an accrued vested employee benefits payable of \$4,001 recorded in the governmental activities and \$25,243 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, 2018

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Benefits Provided:

Table 2	2017 Valuation	2017 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	50/25
	55/15	55/15
Final Average Compensation:	5 years	3 years
Employee Contributions:	0%	0%
Act 88:	Yes (Adopted 11/20/2017)	Yes (Adopted 11/20/2017)
	10 - Sprvsrs: Closed to new hires, <u>linked to Division HA</u>	11 - Spvs LT & Pwr: Closed to new hires, <u>linked to Division HB</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	50/25
	55/15	55/15
Final Average Compensation:	5 years	5 years
Employee Contributions:	0%	0%
Act 88:	Yes (Adopted 11/20/2017)	Yes (Adopted 11/20/2017)
	HA - All EE's eligible for pension after 1/1/15: Open Division, <u>linked to Division 01, 02, 10</u>	HB - All eligible P&P after 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:	Yes (Adopted 11/20/2017)	Yes (Adopted 11/20/2017)

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Table 2 (Continued)	2017 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:	Yes (Adopted 11/20/2017)

Employees covered by benefit terms: At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>19</u>
Total employees covered by MERS Plan	<u><u>51</u></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, 2017, the Village's contribution rate was \$4,649 for general, \$41 for police and fire, \$5,479 for Supervisors, \$770 for Light & Power Supervisors, \$751 for General Light and Power employees, 7.41% for administration eligible after January 1, 2015 and 6.48% 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, 2017, 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, 2018

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Actuarial assumptions: The total pension liability in the December 31, 2017 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, 2017 valuation were based on the results of the most recent actuarial experience study of 2015.

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	55.5%	3.41%
Global Fixed Income	18.5%	0.23%
Real Assets	13.5%	0.97%
Diversifying Strategies	12.5%	0.63%

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, 2018

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of December 31, 2017	\$4,646,070	\$ 3,014,078	\$ 1,631,992
Changes for the year			
Service Cost	51,841		51,841
Interest on total pension liability	359,296		359,296
Changes in benefits	-		-
Difference between expected and actual experience	(43,893)		(43,893)
Change in assumptions	-		-
Employer contributions	-	163,110	(163,110)
Employee contributions	-	-	-
Net investment income	-	(111,357)	111,357
Benefit payments, including employee refunds	(361,584)	(361,584)	-
Administrative expense		(5,703)	5,703
Other changes	2,260	-	2,260
Net changes	<u>7,920</u>	<u>(315,534)</u>	<u>323,454</u>
Balances as of December 31, 2018	<u>4,653,990</u>	<u>2,698,544</u>	<u>1,955,446</u>

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Net Pension Liability at December 31, 2018		\$ 1,955,446	
Change in Net Pension Liability (NPL)	\$ 417,616		\$ (361,308)

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

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, 2018, the Village recognized pension expense of \$286,455. 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>
Net difference between projected and actual earnings on pension plan investments**	\$ 208,551	\$ -
Differences in Experience**	<u>-</u>	<u>21,947</u>
Total	<u>\$ 208,551</u>	<u>\$ 21,947</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, 2018.

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

<u>Year Ended December 31</u>	<u>Amount</u>
2019	\$54,466
2020	23,517
2021	39,756
2022	68,863

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE L--OTHER POSTEMPLOYMENT BENEFITS

Plan Description: In addition to the pension benefits described in Note K, the Village provides postemployment healthcare insurance benefits to specified retired employees and/or their spouse. The benefits are provided in accordance with Article 10, Section 1, of the union agreement.

Benefits Provided: Healthcare benefits are provided upon retirement as follows: For salaried employees hired after May 2, 2012 and for Union employees, premiums are paid by the Village for the participant for 8 years after retirement and pre-65 reimbursement of deductible up to \$3,750 and premiums are paid by the Village for the spouse for 3 years after retirement and pre-65 reimbursement of deductible up to \$3,750. For salaried employees hired by May 2, 2012, the premiums are paid by the Village for the participant for life and pre-65 reimbursement of deductible up to \$3,750 and premiums are paid by the Village for the spouse until age 70 and pre-65 reimbursement of deductible up to \$3,750.

Employees covered by benefit terms. At the December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members receiving benefits	14
Active plan members	<u>3</u>
Total participants	<u><u>17</u></u>

Contributions. The Village of Newberry Retiree Health Plan was established and is being funded under the authority of the Village. The plan’s funding policy has been that the employer funds the plan on a “pay-as-you-go” basis. That is, benefit payments have been made from general operating funds. Currently, benefit payments are made from general operating funds. There are no long term contracts for contributions to the plan. The plan has no legally required reserves. During the year, the Village contributed \$159,151 for the benefit.

Net OPEB Liability. The Village’s net OPEB liability was measured as of December 31, 2018. The December 31, 2018 total OPEB liability was determined by an actuarial valuation performed as of December 31, 2018.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Implicit in expected payroll increases
Salary increases	3.5%
Investment rate of return	N/A; plan is not pre-funded
20-year Aa Municipal bond rate	3.64%
Mortality	2010 Public Mortality, headcount weighted, projected with MP-2018, annuitant and non-annuitant, sex-distinct Mortality Table

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE L--OTHER POSTEMPLOYMENT BENEFITS (Continued)

As the plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.64%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. December 31, 2018 is the first year of compliance with GASB 75, so there is no required discount rate change to disclose.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a)-(b)
Balance as of December 31, 2017	\$ 1,010,532	\$ -	\$ 1,010,532
Changes for the year			
Service Cost	1,085	-	1,085
Interest	34,794	-	34,794
Experience (Gains)/Losses	11,179	-	11,179
Change in actuarial assumptions	-	-	-
Contributions to OPEB trust	-	-	-
Contributions/benefit paid from general operating funds	-	159,151	(159,151)
Net investment income	-	-	-
Benefit payments	(159,151)	(159,151)	-
Administrative expense	-	-	-
Other changes	-	-	-
Total changes	<u>(112,093)</u>	<u>-</u>	<u>(112,093)</u>
Balance as of December 31, 2018	<u>\$ 898,439</u>	<u>\$ -</u>	<u>\$ 898,439</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Village, as well as what the Village’s net OPEB liability would be if it were calculated using trend and discount rates 1% higher and lower than base assumptions:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability at December 31, 2018		\$ 898,439	
Net OPEB Liability	\$ 939,520		\$ 860,959

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE L--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Village, as well as what the Village's net OPEB liability would be if it were calculated using trend and discount rates 1% higher and lower than base assumptions:

	<u>1% Decrease</u>	Health Care <u>Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability at December 31, 2018		\$898,439	
Net OPEB Liability	\$ 862,643		\$ 936,847

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2018, the Village recognized OPEB expense of \$32,639. At December 31, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience (Gains) / Losses	\$ -	\$ -
Changes in Assumptions	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	-

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, 2018

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 did not receive any capital distributions. As of December 31, 2018, 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--RESTATEMENT OF NET POSITION

During the current fiscal year, the Village adopted GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Due to this implementation, the government-wide statements now include a net OPEB liability for unfunded OPEB obligations. The statement of net position is restated to record the liability as of January 1, 2018:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning Net Position--January 1, 2018	\$ 55,385	\$ 5,772,547
Add Net OPEB Liability--January 1, 2018	14,408	406,842
Less net OPEB liability recorded for the implementation of GASB 75	<u>(40,421)</u>	<u>(970,110)</u>
Restated Beginning Net Position--January 1, 2018	<u>\$ 29,372</u>	<u>\$ 5,209,279</u>

VILLAGE OF NEWBERRY--LUCE COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ending December 31, 2018

NOTE P--UPCOMING REPORTING CHANGES

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The Village is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Village's financial statements for the fiscal year ending 2020-2021.

In June 2017, the GASB issued Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Village is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Village's financial statements for the fiscal year ending 2020-2021.

In April 2018, the GASB issued Statements No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

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

EXHIBIT H

For the Fiscal Year Ended December 31, 2018

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
	Budget	Amended Budget		
Revenues				
Taxes	\$ 260,760	\$ 272,790	\$ 290,488	\$ 17,698
Licenses and Permits	100	13,651	590	(13,061)
State Grants	210,900	223,951	302,475	78,524
Charge for Services	105,400	77,405	67,499	(9,906)
Interest and Rentals	800	1,916	3,568	1,652
Other Revenue	337,400	428,173	426,858	(1,315)
Total Revenues	<u>915,360</u>	<u>1,017,886</u>	<u>1,091,478</u>	<u>73,592</u>
Expenditures				
General Government	253,650	493,464	480,858	12,606
Public Safety	4,820	44,136	44,136	-
Public Works	217,450	311,766	308,388	3,378
Other	2,050	1,604	1,604	-
Capital Outlay	5,900	20,525	85,116	(64,591)
Total Expenditures	<u>483,870</u>	<u>871,495</u>	<u>920,102</u>	<u>(48,607)</u>
Excess of Revenues Over (Under) Expenditures	<u>431,490</u>	<u>146,391</u>	<u>171,376</u>	<u>24,985</u>
Fund Balance--January 1, 2018	<u>492,831</u>	<u>492,831</u>	<u>492,831</u>	<u>-</u>
Fund Balance--December 31, 2018	<u>\$ 924,321</u>	<u>\$ 639,222</u>	<u>\$ 664,207</u>	<u>\$ 24,985</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, 2018

SCHEDULE 1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service Cost	\$ 51,841	\$ 50,379	\$ 56,321	\$ 57,323
Difference between expected and actual experience	(43,893)	(6,626)	(55,600)	(58,770)
Changes in assumptions	-	-	203,073	196,558
Interest	359,296	355,645	347,836	341,332
Benefit payments including employee refunds	(361,584)	(322,580)	(308,458)	(294,636)
Other Changes	2,260	(12,408)	(155,433)	(3,924)
Net Change in Total Pension Liability	7,920	64,410	87,739	237,883
Total Pension Liability--Beginning	<u>4,646,070</u>	<u>4,581,660</u>	<u>4,493,921</u>	<u>4,256,038</u>
Total Pension Liability--Ending	<u>\$ 4,653,990</u>	<u>\$ 4,646,070</u>	<u>\$ 4,581,660</u>	<u>\$ 4,493,921</u>
Plan Fiduciary Net Position				
Contributions--employer	\$ 163,110	\$ 160,210	\$ 243,380	\$ 139,838
Contributions--employees	-	-	-	-
Net Investment Income	(111,357)	364,244	292,473	(40,303)
Benefit payments including employee refunds	(361,584)	(322,580)	(308,458)	(294,636)
Administrative expense	(5,703)	(5,780)	(5,778)	(5,987)
Other Changes	-	-	1	(1)
Net Change in Plan Fiduciary Net Position	(315,534)	196,094	221,618	(201,089)
Plan Fiduciary Net Position--Beginning	<u>3,014,078</u>	<u>2,817,984</u>	<u>2,596,366</u>	<u>2,797,455</u>
Plan Fiduciary Net Position--Ending	<u>\$ 2,698,544</u>	<u>\$ 3,014,078</u>	<u>\$ 2,817,984</u>	<u>\$ 2,596,366</u>
Employer Net Pension Liability	<u>\$ 1,955,446</u>	<u>\$ 1,631,992</u>	<u>\$ 1,763,676</u>	<u>\$ 1,897,555</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	58%	65%	62%	58%
Covered Employee Payroll	\$ 703,254	\$ 647,812	\$ 675,376	\$ 675,376
Employer's Net Pension Liability as a percentage of covered employee payroll	278%	252%	261%	281%

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, 2018

SCHEDULE 2

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial Determined Contributions*	\$ 163,107	\$ 160,211	\$ 153,379	\$ 139,838	\$ 104,488	\$ 102,254	\$ 105,944	\$ 105,451	\$ 112,339	\$ 91,335	\$ 94,806
Contributions in Relation to the actuarially determined contribution	163,107	160,211	243,379	139,838	104,488	274,254	105,944	105,451	112,339	91,335	94,806
Contribution deficiency (excess)	\$ -	\$ -	\$ (90,000)	\$ -	\$ -	\$ (172,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 703,254	\$ 703,254	\$ 647,812	\$ 675,376	\$ 537,871	\$ 477,186	\$ 516,904	\$ 540,440	\$ 564,470	\$ 555,767	\$ 490,762
Contributions as a percentage of covered employee payroll	23%	23%	38%	21%	19%	57%	20%	20%	20%	16%	19%

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
 SCHEDULE OF CHANGES IN THE VILLAGE'S
 NET OPEB LIABILITY AND RELATED RATIOS*
 For the Fiscal Year Ending December 31, 2018

SCHEDULE 3

	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 1,085
Interest	34,794
Difference Between Expected and Actual Experience	11,179
Benefit payments including employee refunds	<u>(159,151)</u>
Net Change in Total OPEB Liability	<u>(112,093)</u>
Total OPEB Liability beginning	<u>1,010,532</u>
Total OPEB Liability ending	<u><u>\$ 898,439</u></u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 159,151
Net Investment income	-
Benefit payments including employee refunds	(159,151)
Administrative expense	-
Net Change in Plan Fiduciary Net Position	<u>-</u>
Plan Fiduciary Net Position beginning	<u>-</u>
Plan Fiduciary Net Position ending	<u><u>\$ -</u></u>
Employer Net OPEB Liability	<u><u>\$ 898,439</u></u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0%
Covered Employee Payroll	\$ 156,362
Employer's Net OPEB Liability as a percentage of covered employee payroll	575%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2018 valuation.

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. 75 will be built prospectively upon implementation of the standard.

VILLAGE OF NEWBERRY
 SCHEDULE OF VILLAGES'S CONTRIBUTIONS--OPEB
 For the Fiscal Year Ending December 31, 2018

SCHEDULE 4

	2018
Actuarial Determined Contributions	\$ 153,536
Contributions in relation to the actuarially determined contribution	144,732
Contribution deficiency (excess)	\$ 8,804
 Covered Employee Payroll	 \$ 156,362
 Contributions as a percentage of covered employee payroll	 93%

Notes to Schedule

10 year requirement for disclosure The ten year requirement of information will be built prospectively.

Actuarial valuation information relative to the determination of contributions:

Valuation date	December 31, 2018
Measurement Date	December 31, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal (level of percentage of compensation)
Amortization method	Level Percent, closed
Discount Rate	3.64%
20-year Aa Municipal Bond Rate	Rationale - 20 year Aa Municipal bond rate for December 3.64% - Current bond rate
Inflation	2.5%
Payroll inflation	3.5%
Return on plan assets	N/A; Plan is not prefunded
Mortality	Public mortality study PUG 2010 and MP-2018 mortality improvement

VILLAGE OF NEWBERRY--LUCE COUNTY
 SCHEDULE OF BOND COVENANT CASH RESERVES
 December 31, 2018

SCHEDULE 5

	<u>Required Balance</u>	<u>Actual Balance</u>
Water Fund - Restricted Cash		
Operation and Maintenance Funds--2014	\$ 155,038	-
Bond and Interest Redemption		
Series 2005 Revenue Bond	39,132	33,310
Series 2009 Revenue Bond	5,296	2,180
Series 2014 Revenue Bond	-	-
Bond Reserves		
Series 2005 Revenue Bond	130,000	130,000
Series 2009 Revenue Bond	16,000	12,800
Series 2014 Revenue Bond	93,600	46,800
Repair, Replacement and Improvement Accounts		
Series 2005 Revenue Bond	230,685	175,195
Series 2014 Revenue Bond	90,192	45,095
	<u>\$ 759,943</u>	<u>445,380</u>
Sewer Fund - Restricted Cash		
Operation and Maintenance Funds -- 2014	\$ 85,403	-
Bond and Interest Redemption		
Series 2014 Revenue Bond	60,620	-
Bond Reserves		
Series 2014 Revenue Bond	68,903	-
Repair, Replacement and Improvement Accounts		
Series 2014 Revenue Bond	-	-
	<u>\$ 214,926</u>	<u>-</u>

VILLAGE OF NEWBERRY--LUCE COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 December 31, 2018

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	\$ 216	\$ 1	\$ 776	\$ 120,599	\$ 47,447	\$ 12,124	\$ 65,356	\$ 246,519
Taxes Receivable	-	10,735	-	-	4,781	-	-	15,516
Accounts Receivable--Other	-	-	-	125,701	-	-	-	125,701
Due from State	27,637	11,134	-	-	-	-	-	38,771
Due from Other Funds	211,862	85,375	28,150	34,319	46,626	-	-	406,332
Total Assets	<u>\$ 239,715</u>	<u>\$ 107,245</u>	<u>\$ 28,926</u>	<u>\$ 280,619</u>	<u>\$ 98,854</u>	<u>\$ 12,124</u>	<u>\$ 65,356</u>	<u>\$ 832,839</u>
<u>LIABILITIES</u>								
Accounts Payable	\$ 507	\$ 811	\$ -	\$ 14,148	\$ -	\$ -	\$ 175	\$ 15,641
Due to State	2,915	1,167	-	-	-	-	-	4,082
Due to Other Funds	37,381	11,384	-	169,294	12,867	37,826	71,228	339,980
Total Liabilities	<u>40,803</u>	<u>13,362</u>	<u>-</u>	<u>183,442</u>	<u>12,867</u>	<u>37,826</u>	<u>71,403</u>	<u>359,703</u>
<u>FUND BALANCES</u>								
Restricted								-
Streets	198,912	93,883	-	-	-	-	-	292,795
Fire Capital Purchases	-	-	28,926	-	-	-	-	28,926
Fire Operations	-	-	-	97,177	85,987	-	-	183,164
Unassigned	-	-	-	-	-	(25,702)	(6,047)	(31,749)
Total Fund Balances	<u>198,912</u>	<u>93,883</u>	<u>28,926</u>	<u>97,177</u>	<u>85,987</u>	<u>(25,702)</u>	<u>(6,047)</u>	<u>473,136</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 239,715</u>	<u>\$ 107,245</u>	<u>\$ 28,926</u>	<u>\$ 280,619</u>	<u>\$ 98,854</u>	<u>\$ 12,124</u>	<u>\$ 65,356</u>	<u>\$ 832,839</u>

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, 2018

EXHIBIT J

	Special Revenue Funds					Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Revolving	Fire Millage	TORC	Atlas Park	
Revenues								
Taxes	\$ -	\$ 89,604	\$ -	\$ -	\$ 40,188	\$ -	\$ -	\$ 129,792
State Grants	187,617	88,023	-	2,650	-	-	-	278,290
Charges for Services	-	-	-	105,087	-	-	-	105,087
Contributions	-	-	-	-	-	25,000	-	25,000
Interest and Rentals	-	625	37	170	132	42	-	1,006
Total Revenues	187,617	178,252	37	107,907	40,320	25,042	-	539,175
Expenditures								
Public Works	79,815	133,790	-	143,939	-	19,135	2,732	379,411
Capital Outlay	-	-	-	11,900	-	-	3,736	15,636
Total Expenditures	79,815	133,790	-	155,839	-	19,135	6,468	395,047
Excess of Revenue Over (Under) Expenditures	107,802	44,462	37	(47,932)	40,320	5,907	(6,468)	144,128
Fund Balance--January 1, 2018	91,110	49,421	28,889	145,109	45,667	(31,609)	421	329,008
Fund Balance--December 31, 2018	\$ 198,912	\$ 93,883	\$ 28,926	\$ 97,177	\$ 85,987	\$ (25,702)	\$ (6,047)	\$ 473,136

VILLAGE OF NEWBERRY--LUCE COUNTY
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended December 31, 2018

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	\$ 208,456	\$ 196,198	\$ (12,258)
Current Property Taxes--Garbage	24,600	25,859	24,338	(1,521)
Personal Property Taxes	-	-	31,277	31,277
Payment in Lieu of Taxes	31,500	31,500	31,500	-
Interest on Delinquent Taxes	-	-	3,366	3,366
Administrative Fees	6,600	6,975	3,809	(3,166)
Total Taxes	260,760	272,790	290,488	17,698
Licenses and Permits				
FOIA Request Revenue	-	335	336	1
Employee Insurance	-	13,062	-	(13,062)
Licenses and Permits	100	254	254	-
Total Licenses and Permits	100	13,651	590	(13,061)
State Grants				
State Grants	-	34,534	100,904	66,370
Local Community Stabilization	-	10,038	10,038	-
State Revenue Sharing	210,900	179,379	191,533	12,154
Total State Grants	210,900	223,951	302,475	78,524
Charges for Services				
Admin Fee--Sewage O&M	27,000	-	-	-
Charges for Services--Refuse	76,500	70,087	60,181	(9,906)
Sales	1,900	-	-	-
Garbage--Late Fees	-	195	195	-
Franchise Agreement	-	7,123	7,123	-
Total Charges for Services	105,400	77,405	67,499	(9,906)
Interest and Rentals				
Interest	800	1,916	3,568	1,652
Total Interest and Rentals	800	1,916	3,568	1,652
Other Revenue				
Advertising--Sky Magazine	-	441	440	(1)
Reimbursement Street Overhead	97,000	6,081	6,081	-
Reimburse--Equipment Rental	142,000	136,860	136,860	-
Contributions	-	-	14,370	14,370
Reimbursement Overhead	96,400	266,875	266,875	-
Reimbursement Admin Rural Development	-	15,684	-	(15,684)
Reimbursements and Refunds	2,000	2,232	2,232	-
Total Other Revenue	337,400	428,173	426,858	(1,315)
Total Revenues	\$ 915,360	\$ 1,017,886	\$ 1,091,478	\$ 73,592

VILLAGE OF NEWBERRY--LUCE COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended December 31, 2018

EXHIBIT L

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 27,750	\$ 15,913	\$ 15,913	\$ -
Village President	4,100	5,671	5,670	1
Village Manager	51,300	77,345	77,628	(283)
Village Administrative	90,100	291,887	281,860	10,027
Village Clerk	12,500	17,361	17,361	-
Audit	8,750	2,925	2,925	-
Ordinance Officer	-	10,978	10,978	-
Village Treasurer	11,650	12,467	12,574	(107)
Village Hall	47,500	45,477	42,509	2,968
Attorney	-	13,440	13,440	-
Total General Government	<u>253,650</u>	<u>493,464</u>	<u>480,858</u>	<u>12,606</u>
Public Safety				
Fire Department	4,820	44,136	44,136	-
Total Public Safety	<u>4,820</u>	<u>44,136</u>	<u>44,136</u>	<u>-</u>
Public Works				
DPW	6,200	137,590	137,643	(53)
Sidewalks	3,900	-	-	-
Street Lights	19,000	23,327	19,758	3,569
Sewage Disposal	40,650	16	16	-
Motor Pool	93,100	70,615	70,615	-
Storm Sewers	1,100	3,632	3,632	-
Rubbish	53,500	76,586	76,724	(138)
Total Public Works	<u>217,450</u>	<u>311,766</u>	<u>308,388</u>	<u>3,378</u>
Other Functions				
Miscellaneous	2,050	1,604	1,604	-
Total Other Functions	<u>2,050</u>	<u>1,604</u>	<u>1,604</u>	<u>-</u>
Capital Outlay	5,900	20,525	85,116	(64,591)
Total Capital Outlay	<u>5,900</u>	<u>20,525</u>	<u>85,116</u>	<u>(64,591)</u>
Total Expenditures	<u>\$ 483,870</u>	<u>\$ 871,495</u>	<u>\$ 920,102</u>	<u>\$ (48,607)</u>



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RACHAEL EUBANKS
STATE TREASURER

April 27, 2020

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, 2018, 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 April 27, 2020.

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 2018-001, 2018-002 and 2018-003.

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 2018-004 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 2018-005, 2018-006, 2018-007, 2018-008 and 2018-009.

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



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RACHAEL EUBANKS
STATE TREASURER

April 27, 2020

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, 2018, and have issued our report thereon dated April 27, 2020. 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. As described in Note L, during the fiscal year ended December 31, 2018, the Village implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement of net position now includes additional information related to the postemployment benefits other than pension in the government-wide statements and more detailed information in the notes 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 April 27, 2020.

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, 2018

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 (Repeat Finding)

Finding 2018-001

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, 2018

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. In September of 2018, the Village converted to BS&A Accounting Software and hired a qualified person who is experienced with governmental accounting to provide a better system of internal control and a greater level of quality control.

Material Audit Adjustments (Repeat Finding)

Finding 2018-002

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 Village had a change in accounting staff and converted to a new accounting system in November of 2018 and the staff did not completely understand the reconciling and closing processes.

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 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, 2018

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. Moving forward, we feel that the person we have hired has the governmental accounting expertise that we need.

Generally Accepted Accounting Principles—Finance Manager--Accruals (Repeat Finding)

Finding 2018-003

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 2018-002. Due to staffing limitations, the Village has since at least 2009, relied on outside service providers to perform this function for the Village. In September 2018, all day to day accounting functions and year end closing out became the responsibility of the finance director. We anticipate that this deficiency will not be present for future audits.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2018

SIGNIFICANT DEFICIENCIES

Reconciliation of Accounting Records (Repeat Finding)

Finding 2018-004

Condition: Recording errors are occurring and not being discovered because there are no reconciliations being performed between supporting documentation and the general ledger (accounts receivable, accounts payable, bank statements).

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 2018-002 and 2018-003. In September of 2018, the Village switched to BS&A Software and to a pooled cash system. By moving to this new system, the Village believes this is a better system of internal control and provides a greater level of quality control.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2018

STATUTORY COMPLIANCE

Budget Violations--Expenditures in Excess of Appropriations

Finding 2018-005

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 2018 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 2018 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			
Village Manager	\$ 77,345	\$ 77,628	\$ (283)
Village Treasurer	12,467	12,574	(107)
Public Works			-
Department of Public Works	137,590	137,643	(53)
Rubbish	76,586	76,724	(138)
Capital Outlay	20,525	85,116	(64,591)
Fire Revolving Fund			
Public Safety	126,650	143,939	(17,289)
Capital Outlay	-	11,900	(11,900)

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2018

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 December 2018. Unfortunately, due to the internal accounting limitations noted in other findings, our projections on final year end balances were understated in some cases. Management is monitoring budget to actual results on a regular basis and intends to pass a comprehensive budget amendment prior to December 31, 2019.

Fund Deficit—Noncompliance with PA 2 of 1968 (Repeat Finding)

Finding 2018-006

Condition: The Village has a deficit in its fund balance for the TORC Fund and the Atlas Park Fund as of December 31, 2018, in the amounts of \$25,702 and \$6,047, respectively, 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, 2018

STATUTORY COMPLIANCE (Continued)

The Village failed to limit expenditures to available revenues for fiscal year 2018.

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: 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 2018-007

Condition: The Village has a deficit in its unrestricted net position for the Sewer Fund as of December 31, 2018, in the amount of \$437,586 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, 2018

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 and 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 prepared and submitted a deficit elimination plan in May 2019.

Village Council--Violations of Public Act 2 of 1968—Audit

Finding 2018-008

Condition: The Village has not submitted an audit report for the year ended December 31, 2018 within the required timeline.

Criteria: According to Public Act 2 of 1968, as amended, local units of government are required to have an annual audit, except in the instance of units of less than 4,000 in population, which have a minimum requirement of an audit not less frequently than every two years. Audit reports are to be filed with the Michigan Department of Treasury within six months after the end of the fiscal year being audited. However, the Michigan Department of Treasury has required the Village to obtain audits annually until the reported deficiencies are rectified and timely audits are filed.

Cause: The Village did not get their fiscal year ended December 31, 2018 information finalized in a timely manner for the audit prior to the filing deadline.

Effect: The Village is in non-compliance with State statute. Whereas the Village did not submit the audit for the fiscal year ended December 31, 2018 by June 30, 2019, the audit is now considered delinquent. The Village did receive an extension from the Department of Treasury but was unable to meet that extension deadline.

VILLAGE OF NEWBERRY--LUCE COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended December 31, 2018

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.

OTHER MATTERS

Village Council--Violations of Bond Requirements—Annual Audit (Repeat Finding)

Finding 2018-009

Condition: The Village has not submitted an audit report for the year ended December 31, 2018 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, 2018 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, 2018 by June 30, 2019, 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.