

Village of Newberry, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2014

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Honorable President and Members
of the Village Council

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison schedules on pages 4 through 7, page 34 and pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Newberry's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Honorable President and Members
of the Village Council

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015, on our consideration of the Village of Newberry's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Newberry's internal control over financial reporting and compliance.



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

June 5, 2015

Management's Discussion and Analysis

Using this Annual Report

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

The Village as a Whole

The Village's combined net position decreased 4% from a year ago decreasing from \$6,240,619 to \$5,994,278. The governmental activities experienced a \$105,617 decrease in net position. The business-type activities experienced a \$140,724 decrease in net position.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current Assets	\$ 776,711	\$ 869,193	\$ 2,006,141	\$ 1,748,440	\$ 2,782,852	\$ 2,617,633
Capital and Other Assets	485,329	573,926	8,803,144	8,374,017	9,288,473	8,947,943
Total Assets	\$ 1,262,040	\$ 1,443,119	\$ 10,809,285	\$ 10,122,457	\$ 12,071,325	\$ 11,565,576
Current Liabilities	\$ 130,233	\$ 155,946	\$ 1,099,422	\$ 522,868	\$ 1,229,655	\$ 678,814
Noncurrent Liabilities	237,189	286,938	4,610,203	4,359,205	4,847,392	4,646,143
Total Liabilities	367,422	442,884	5,709,625	4,882,073	6,077,047	5,324,957
Net Position						
Net Investment in Capital Assets	272,232	290,744	3,656,313	3,408,126	3,928,545	3,698,870
Unrestricted	622,386	709,491	1,443,347	1,832,258	2,065,733	2,541,749
Total Net Position	\$ 894,618	\$ 1,000,235	\$ 5,099,660	\$ 5,240,384	\$ 5,994,278	\$ 6,240,619

The current level of unrestricted net position for our governmental activities stands at \$622,386 or about 40% of expenditures.

The following table shows the activities of the Village.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program Revenues						
Charges for Services	\$ 552,759	\$ 557,815	\$ 3,675,684	\$ 3,498,072	\$ 4,228,443	\$ 4,055,887
Operating Grants and Contributions	348,945	275,902	290,772	442,653	639,717	718,555
Capital Grants and Contributions	-	-	21,505	178,095	21,505	178,095
General Revenues and Transfers						
Property Taxes	319,306	337,559	-	-	319,306	337,559
P.I.L.O.T.	31,500	31,500	-	-	31,500	31,500
State Revenue Sharing	176,447	171,715	-	-	176,447	171,715
Interest on Deposits	2,195	4,498	5,944	8,596	8,139	13,094
Other Income	-	816	-	-	-	816
Transfers	-	125,000	-	(125,000)	-	-
Total Revenues	1,431,152	1,504,805	3,993,905	4,002,416	5,425,057	5,507,221
Program Expenses						
Legislative	21,519	21,369	-	-	21,519	21,369
General Government	296,317	305,352	-	-	296,317	305,352
Public Safety	360,507	229,244	-	-	360,507	229,244
Public Works	571,432	697,533	-	-	571,432	697,533
Interest Expense - Unallocated	39,187	13,862	-	-	39,187	13,862
Other Expenses	247,807	338,426	-	-	247,807	338,426
Electric	-	-	2,708,727	2,514,649	2,708,727	2,514,649
Water	-	-	424,284	357,944	424,284	357,944
Sewer	-	-	1,001,618	1,092,043	1,001,618	1,092,043
Total Expenses	1,536,769	1,605,786	4,134,629	3,964,636	5,671,398	5,570,422
Changes in Net Position	(105,617)	(100,981)	(140,724)	37,780	(246,341)	(63,201)
Net Position - Beginning	1,000,235	1,101,216	5,240,384	5,202,604	6,240,619	6,303,820
Net Position - Ending	\$ 894,618	\$ 1,000,235	\$ 5,099,660	\$ 5,240,384	\$ 5,994,278	\$ 6,240,619

Governmental Activities

Revenue from property taxes was less than the previous year decreasing by \$18,253. This is due to stabilization in taxable value. Charges for services decreased by \$5,056, while operating grants increased by \$73,043.

Expenses decreased by \$69,017.

Business-Type Activities

The Village's total business-type revenues decreased by \$8,511.

Total business-type expenses increased by \$169,993 during the year.

The Village's Funds

Our analysis of the Village's major funds begins on page 10, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2014 include the General Fund, Fire Operating, Electric, Water, Newberry Sewage, and Luce Village Sewage.

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

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

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

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

General Fund Budgetary Highlights

The Village's actual revenues were \$87,824 below the amended budget.

Expenditures were \$122,294 below the amended budget for 2014.

Capital Asset and Debt Administration

Capital Assets – The Village's investment in capital assets as of December 31, 2014, amounted to \$8,584,858, (net of accumulated depreciation). This investment in capital assets includes land, building infrastructure (for the electric, water, and sewer systems), vehicles and equipment. The major capital additions for 2014 included improvements to the water and sewer system. Additional information on capital assets can be found in Note 4 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year at the end of the current fiscal year. The Village has a total of \$4,656,313 outstanding in capital leases, bonds payable and installments payable. Additional information on the Village's long-term debt can be found in Notes 5 and 6.

Economic Factors and Next Year's Budgets and Rates

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

Contacting the Village's Management

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact Charles H. Cleaver, Village Manager, or Carol Anderson, Village President by calling 906-293-3433 ext. 1 during the hours of 8 am to 4:30 pm, Monday through Friday or write the Village of Newberry at 307 E. McMillan Ave., Newberry, Michigan 49868.

Basic Financial Statements

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS:			
Cash and Equivalents - Unrestricted	\$ 569,146	\$ 1,063,945	\$ 1,633,091
Cash and Equivalents - Restricted	-	303,434	303,434
Receivables			
Accounts	56,208	597,674	653,882
Current Tax	23,688	-	23,688
Other Governments	107,120	31,249	138,369
Internal Balances	20,549	(20,549)	-
Inventory	-	30,388	30,388
Capital Credits in Coop	-	703,615	703,615
Capital Assets (Not Depreciated)	-	961,187	961,187
Capital Assets (Net of Depreciation)	485,329	7,138,342	7,623,671
TOTAL ASSETS	\$ 1,262,040	\$ 10,809,285	\$ 12,071,325
LIABILITIES:			
Accounts Payable	\$ 43,779	\$ 731,836	\$ 775,615
Accrued Liabilities	11,970	69,324	81,294
Accrued Interest Payable	953	46,512	47,465
Capital Leases - Due within one year	18,282	-	18,282
Capital Leases - Due in more than one year	33,165	-	33,165
Installment Payable - Due within one year	16,999	-	16,999
Installment Payable - Due in more than one year	23,151	-	23,151
Bonds Payable - Due within one year	38,250	251,750	290,000
Bonds Payable - Due in more than one year	83,250	4,191,466	4,274,716
Vested Employee Benefits - Due in more than one year	7,682	-	7,682
(OPEB) Obligation - Due in more than one year	89,941	418,737	508,678
TOTAL LIABILITIES	367,422	5,709,625	6,077,047
NET POSITION:			
Net Investment in Capital Assets	272,232	3,656,313	3,928,545
Unrestricted	622,386	1,443,347	2,065,733
TOTAL NET POSITION	\$ 894,618	\$ 5,099,660	\$ 5,994,278

Village of Newberry, Michigan

Statement of Activities For the Year Ended December 31, 2014

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 21,519	\$ -	\$ -	\$ -	\$ (21,519)	\$ -	\$ (21,519)
General Government	296,317	318,575	33,659	-	55,917	-	55,917
Public Safety	360,507	19,436	78,173	-	(262,898)	-	(262,898)
Public Works	571,432	214,748	237,113	-	(119,571)	-	(119,571)
Other Expenses	247,807	-	-	-	(247,807)	-	(247,807)
Interest Expense - Unallocated	39,187	-	-	-	(39,187)	-	(39,187)
Total Governmental Activities	1,536,769	552,759	348,945	-	(635,065)	-	(635,065)
Business-type Activities:							
Electric	2,708,727	2,286,028	268,572	-	-	(154,127)	(154,127)
Water	424,284	489,558	17,673	-	-	82,947	82,947
Sewer	1,001,618	900,098	4,527	21,505	-	(75,488)	(75,488)
Total Business-type Activities	4,134,629	3,675,684	290,772	21,505	-	(146,668)	(146,668)
Total Primary Government	<u>\$ 5,671,398</u>	<u>\$ 4,228,443</u>	<u>\$ 639,717</u>	<u>\$ 21,505</u>	<u>(635,065)</u>	<u>(146,668)</u>	<u>(781,733)</u>
General Revenues and Transfers:							
Property Taxes					319,306	-	319,306
P.I.L.O.T					31,500	-	31,500
State Revenue Sharing					176,447	-	176,447
Interest on Deposits					2,195	5,944	8,139
Total General Revenues and Transfers					529,448	5,944	535,392
Change in Net Position					(105,617)	(140,724)	(246,341)
Net Position - Beginning					1,000,235	5,240,384	6,240,619
Net Position - Ending					<u>\$ 894,618</u>	<u>\$ 5,099,660</u>	<u>\$ 5,994,278</u>

See accompanying notes to financial statements.

Village of Newberry, Michigan

Balance Sheet Governmental Funds December 31, 2014

	General Fund	Fire Operating	Nonmajor Governmental Funds	Total
ASSETS:				
Cash	\$ 328,344	\$ 87,996	\$ 152,806	\$ 569,146
Taxes Receivable	23,688	-	12,149	35,837
Accounts Receivable	12,659	31,400	-	44,059
Due From Other Funds	591,248	18,426	174,934	784,608
Due From Other Governmental Units	57,580	21,133	28,407	107,120
TOTAL ASSETS	\$ 1,013,519	\$ 158,955	\$ 368,296	\$ 1,540,770
LIABILITIES:				
Accounts Payable	\$ 43,779	\$ -	\$ -	\$ 43,779
Accrued Liabilities	9,706	-	2,264	11,970
Due to Other Funds	430,667	4,844	328,548	764,059
TOTAL LIABILITIES	484,152	4,844	330,812	819,808
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue	8,554	-	5,768	14,322
FUND BALANCES:				
Restricted	-	154,111	31,716	185,827
Unassigned	520,813	-	-	520,813
TOTAL FUND BALANCES	520,813	154,111	31,716	706,640
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,013,519	\$ 158,955	\$ 368,296	

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

Capital assets used by governmental activities	485,329
Other post employment benefits (OPEB)	(89,941)
Long-term leases, installments and bonds payable for governmental activities	(213,097)
Vested employee benefits	(7,682)
Unearned revenue	8,554
Deferred inflows of resources PA 252	5,768
Accrued interest expense	(953)
Net position of governmental activities	\$ 894,618

Village of Newberry, Michigan

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2014

	General Fund	Fire Operating	Nonmajor Governmental Funds	Total
REVENUES:				
Taxes	\$ 241,828	\$ -	\$ 108,978	\$ 350,806
State Sources	243,997	2,200	169,563	415,760
Local Sources	-	42,226	79,578	121,804
Charges for Services	117,475	11,060	-	128,535
Interest and Rents	1,072	583	539	2,194
Refunds and Reimbursements	400,159	8,376	-	408,535
TOTAL REVENUES	1,004,531	64,445	358,658	1,427,634
EXPENDITURES:				
Legislative	21,519	-	-	21,519
General Government	289,273	-	159,112	448,385
Public Safety	46,781	96,580	-	143,361
Public Works	213,694	-	331,968	545,662
Other Expenditures	226,276	-	-	226,276
Debt Service	61,118	-	48,424	109,542
TOTAL EXPENDITURES	858,661	96,580	539,504	1,494,745
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	145,870	(32,135)	(180,846)	(67,111)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	30,233	134,229	164,462
Transfers (Out)	(110,965)	-	(53,497)	(164,462)
TOTAL OTHER FINANCING SOURCES (USES)	(110,965)	30,233	80,732	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	34,905	(1,902)	(100,114)	(67,111)
FUND BALANCES, BEGINNING OF YEAR	485,908	156,013	131,830	773,751
FUND BALANCES, END OF YEAR	\$ 520,813	\$ 154,111	\$ 31,716	\$ 706,640

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2014**

Net changes in fund balances – total governmental funds \$ (67,111)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$88,597) exceeded capital outlay of \$0. (88,597)

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

Principal repayments:			
Bonds payable	\$	36,000	
Installment payable		16,663	
Capital lease payable		<u>17,422</u>	70,085

Unavailable revenue in fund statement recorded as revenue in statement of activities. (2,251)

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

Vested employee benefits	\$	(2,251)	
Other post employment benefits (OPEB)		(21,530)	
Accrued interest on bonds		<u>270</u>	(23,511)

Deferred Inflows recorded as a liability on the balance sheet is recorded as Revenue on the government-wide financial statement (PA 252) 5,768

Changes in net position of governmental activities \$ (105,617)

Village of Newberry, Michigan

Statement of Net Position Proprietary Funds December 31, 2014

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 419,864	\$ 450,371	\$ 160,793	\$ 32,917	\$ 1,063,945
Cash and Equivalents - Restricted	-	303,434	-	-	303,434
Accounts Receivable	431,862	165,312	-	500	597,674
Due from Other Funds	384,609	7,483	55,492	115,826	563,410
Inventories	17,523	329	-	12,536	30,388
Due from Governmental Units	-	-	16,346	14,903	31,249
Capital Credits in Coop	703,615	-	-	-	703,615
Capital Assets	5,910,738	5,958,738	3,211,616	93,669	15,174,761
Accumulated Depreciation	(3,661,095)	(1,630,875)	(1,720,408)	(62,854)	(7,075,232)
TOTAL ASSETS	\$ 4,207,116	\$ 5,254,792	\$ 1,723,839	\$ 207,497	\$ 11,393,244
LIABILITIES:					
Due to Other Funds	\$ 13,522	\$ 47	\$ 451,448	\$ 118,942	\$ 583,959
Accounts Payable	438,412	5,652	287,772	-	731,836
Accrued Liabilities	26,049	15,621	-	27,654	69,324
Accrued Interest Payable	12,431	33,295	786	-	46,512
Bonds Payable - Due within one year	204,000	35,000	12,750	-	251,750
Bonds Payable - Due in more than one year	1,369,000	2,683,000	139,466	-	4,191,466
(OPEB) Obligation - Due in more than one year	225,805	-	-	192,932	418,737
TOTAL LIABILITIES	2,289,219	2,772,615	892,222	339,528	6,293,584
NET POSITION:					
Net Investment in Capital Assets	676,643	1,609,863	1,338,992	30,815	3,656,313
Unrestricted	1,241,254	872,314	(507,375)	(162,846)	1,443,347
TOTAL NET POSITION	\$ 1,917,897	\$ 2,482,177	\$ 831,617	\$ (132,031)	\$ 5,099,660

Village of Newberry, Michigan

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended December 31, 2014

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
OPERATING REVENUES:					
Charges for Services	\$ 2,286,028	\$ 489,558	\$ 417,143	\$ 482,955	\$ 3,675,684
Other Income	268,572	17,673	-	4,527	290,772
TOTAL OPERATING REVENUES	2,554,600	507,231	417,143	487,482	3,966,456
OPERATING EXPENSES:					
Employee Wages and Benefits	530,929	112,882	953	248,523	893,287
Supplies	56,748	14,176	-	35,910	106,834
Repairs and Maintenance	295,700	2,125	409,514	925	708,264
Contracted Services	89,785	31,540	16,117	28,056	165,498
Insurance	15,324	9,573	-	13,291	38,188
Depreciation	82,899	154,430	54,626	7,013	298,968
Utilities	1,522,365	-	-	181,584	1,703,949
Other Expenses	32,952	928	-	-	33,880
TOTAL OPERATING EXPENSES	2,626,702	325,654	481,210	515,302	3,948,868
OPERATING INCOME (LOSS)	(72,102)	181,577	(64,067)	(27,820)	17,588
NONOPERATING REVENUES (EXPENSES):					
Interest Expense	(82,025)	(98,630)	(5,106)	-	(185,761)
Interest and Rentals	3,461	1,436	569	478	5,944
Grants	-	-	21,505	-	21,505
Total Nonoperating Revenues (Expenses)	(78,564)	(97,194)	16,968	478	(158,312)
CHANGES IN NET POSITION	(150,666)	84,383	(47,099)	(27,342)	(140,724)
NET POSITION, JANUARY 1	2,068,563	2,397,794	878,716	(104,689)	5,240,384
NET POSITION, DECEMBER 31	\$ 1,917,897	\$ 2,482,177	\$ 831,617	\$ (132,031)	\$ 5,099,660

**Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014**

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
Cash Flows from Operating Activities:					
Cash Received from Customers or Users	\$ 2,256,573	\$ 461,385	\$ 417,057	\$ 500,289	\$ 3,635,304
Cash Payments to Employees	(482,481)	(110,729)	(953)	(216,688)	(810,851)
Cash Payments to Vendors	(1,717,338)	(52,690)	(137,859)	(260,130)	(2,168,017)
Cash Received (Paid) for Other Funds	125,182	(129,182)	108,416	(115,170)	(10,754)
Net Cash Provided (Used) by Operating Activities	<u>181,936</u>	<u>168,784</u>	<u>386,661</u>	<u>(91,699)</u>	<u>645,682</u>
Cash Flows from Capital and Related Financing Activities:					
Debt Principal Payments	(187,000)	(33,000)	(67,776)	-	(287,776)
Debt Interest Payments	(83,370)	(98,753)	(5,503)	-	(187,626)
Bond Proceeds	-	357,000	111,716	-	468,716
Federal Grants / State Grants	-	-	21,505	-	21,505
Purchase of Capital Assets	(1,128)	(317,603)	(404,397)	(4,966)	(728,094)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(271,498)</u>	<u>(92,356)</u>	<u>(344,455)</u>	<u>(4,966)</u>	<u>(713,275)</u>
Cash Flows from Investing Activities:					
Interest Received	3,461	1,436	569	478	5,944
Net Cash Provided by Investing Activities	<u>3,461</u>	<u>1,436</u>	<u>569</u>	<u>478</u>	<u>5,944</u>
Net Increase (Decrease) in Cash	(86,101)	77,864	42,775	(96,187)	(61,649)
Cash and Cash Equivalents, Beginning of Year	505,965	675,941	118,018	129,104	1,429,028
Cash and Cash Equivalents, End of Year	<u>\$ 419,864</u>	<u>\$ 753,805</u>	<u>\$ 160,793</u>	<u>\$ 32,917</u>	<u>\$ 1,367,379</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (72,102)	\$ 181,577	\$ (64,067)	\$ (27,820)	\$ 17,588
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	82,899	154,430	54,626	7,013	298,968
(Increase) Decrease in Assets					
Receivables	(298,027)	(45,846)	-	-	(343,873)
Due from Other Governments	-	-	(86)	12,807	12,721
Inventories	22,919	-	-	(364)	22,555
Due from (to) Other Funds	125,182	(129,182)	108,416	(115,170)	(10,754)
Increase (Decrease) in Liabilities:					
Accounts Payable	272,617	5,652	287,772	-	566,041
Accrued Liabilities	4,860	2,153	-	4,207	11,220
Post Employment Health Care (OPEB)	43,588	-	-	27,628	71,216
Net Cash Provided (Used) by Operating Activities	<u>\$ 181,936</u>	<u>\$ 168,784</u>	<u>\$ 386,661</u>	<u>\$ (91,699)</u>	<u>\$ 645,682</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

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

Basis of Presentation

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

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

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

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

The Village reports the following major governmental funds:

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

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

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

The Village reports the following major enterprise funds:

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

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

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

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

The Village reports the following fund types:

Governmental Funds

General Fund. Described above.

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

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

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

Measurement Focus, Basis of Accounting

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

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

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

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

Cash and Equivalents

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

Inventories

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

Interfund Receivables and Payables

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

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

Capital Assets

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

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

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

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Village has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Long-Term Obligations

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

Budgetary Data

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

Use of Estimates

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

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

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Village has no items classified as being Nonspendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Village has \$185,827 of restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Village. These amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Village's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Village through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

Vested Employee Benefits

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

NOTE 2 - CASH AND EQUIVALENTS:

	<u>Primary Government</u>
Cash and Equivalents:	
- Unrestricted	\$ 1,633,091
- Restricted	<u>303,434</u>
Total	<u>\$ 1,936,525</u>
Imprest	\$ 500
CD's savings and checking	<u>1,936,025</u>
Total	<u>\$ 1,936,525</u>

Cash and Equivalents – Restricted:

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

Primary Government:

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Water:		
	Repair, Replacement and Improvements	\$ 132,705
	Bond Redemption	44,129
	Bond Reserves	<u>126,600</u>
		<u>\$ 303,434</u>

Water Fund – Restricted Cash

	<u>December 31, 2014</u>	
	<u>Required Balance</u>	<u>Actual Balance</u>
Bond Principal and Interest Redemption		
Water Supply System Revenue Bond Series 2005	\$ 38,946	\$ 38,946
Water Supply System Revenue Bond Series 2009	<u>5,183</u>	<u>5,183</u>
	<u>\$ 44,129</u>	<u>\$ 44,129</u>
Bond Reserves		
Water Supply System Revenue Bond Series 2005	\$ 117,000	\$ 117,000
Water Supply System Revenue Bond Series 2009	<u>9,600</u>	<u>9,600</u>
	<u>\$ 126,600</u>	<u>\$ 126,600</u>

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

	December 31, 2014	
	Required Balance	Actual Balance
Repair, Replacement and Improvements		
Water Supply System Revenue Bond Series 2005	\$ 132,705	\$ 132,705
Total Reserves	\$ 303,434	\$ 303,434

Investment and Deposit Risk

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

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

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Village’s deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$1,355,337 of the Village’s bank balance of \$2,004,138 was exposed to credit risk because it was uninsured and uncollateralized.

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

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

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

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

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

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

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

Interfund balances at December 31, 2014 consisted of the following:

		DUE FROM OTHER FUNDS							
DUE TO OTHER FUNDS		General	Fire Operating	Nonmajor Governmental	Electric	Water	Newberry Sewage	Luce County Sewage	Total
	General	\$	-	\$ -	\$ 56,011	\$ 311,887	\$ 7,277	\$ 55,492	\$ -
Fire Operating		4,844	-	-	-	-	-	-	4,844
Nonmajor Governmental		176,994	18,426	118,481	14,647	-	-	-	328,548
Electric		13,127	-	395	-	-	-	-	13,522
Water		-	-	47	-	-	-	-	47
Newberry Sewage		281,258	-	-	54,364	-	-	115,826	451,448
Luce County Sewage		115,025	-	-	3,711	206	-	-	118,942
Total		<u>\$ 591,248</u>	<u>\$ 18,426</u>	<u>\$ 174,934</u>	<u>\$ 384,609</u>	<u>\$ 7,483</u>	<u>\$ 55,492</u>	<u>\$ 115,826</u>	<u>\$ 1,348,018</u>

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

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

Interfund transfers for the year ended December 31, 2014 consisted of the following:

Interfund Transfers

		TRANSFERS OUT		
		General Fund	Nonmajor Governmental Funds	Total
TRANSFERS IN	Fire Operating	\$ 30,233	\$ -	\$ 30,233
	Nonmajor Governmental	<u>80,732</u>	<u>53,497</u>	<u>134,229</u>
	Total	<u>\$ 110,965</u>	<u>\$ 53,497</u>	<u>\$ 164,462</u>

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

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	\$ 773,473	\$ -	\$ -	\$ 773,473
Infrastructure	173,360	-	-	173,360
Vehicles and Equipment	<u>2,145,500</u>	<u>-</u>	<u>-</u>	<u>2,145,500</u>
Subtotal	<u>3,092,333</u>	<u>-</u>	<u>-</u>	<u>3,092,333</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(706,375)	(6,120)	-	(712,495)
Infrastructure	(43,340)	(8,668)	-	(52,008)
Vehicles and Equipment	<u>(1,768,692)</u>	<u>(73,809)</u>	<u>-</u>	<u>(1,842,501)</u>
Subtotal	<u>(2,518,407)</u>	<u>(88,597)</u>	<u>-</u>	<u>(2,607,004)</u>
Capital Assets – Net	<u>\$ 573,926</u>	<u>\$ (88,597)</u>	<u>\$ -</u>	<u>\$ 485,329</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Governmental Activities:		
General Government		\$ 4,793
Public Safety		58,034
Public Works		<u>25,770</u>
Total Governmental Activities		<u>\$ 88,597</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Construction in Progress	<u>234,799</u>	<u>711,184</u>	<u>-</u>	<u>945,983</u>
Subtotal	<u>250,003</u>	<u>711,184</u>	<u>-</u>	<u>961,187</u>
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	195,654	-	-	195,654
Water System	5,566,361	-	-	5,566,361
Sewer System	2,623,149	10,816	-	2,633,965
Electric System	5,094,574	-	-	5,094,574
Vehicles and Equipment	<u>716,924</u>	<u>6,095</u>	<u>-</u>	<u>723,019</u>
Subtotal	<u>14,196,662</u>	<u>16,911</u>	<u>-</u>	<u>14,213,573</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(170,432)	(1,541)	-	(171,973)
Water System	(1,454,137)	(151,597)	-	(1,605,734)
Sewer System	(1,688,345)	(54,013)	-	(1,742,358)
Electric System	(2,957,410)	(54,163)	-	(3,011,573)
Vehicles and Equipment	<u>(505,939)</u>	<u>(37,654)</u>	<u>-</u>	<u>(543,593)</u>
Subtotal	<u>(6,776,263)</u>	<u>(298,968)</u>	<u>-</u>	<u>(7,075,231)</u>
Net Capital Assets Being Depreciated	<u>7,420,399</u>	<u>(282,057)</u>	<u>-</u>	<u>7,138,342</u>
Capital Assets – Net	<u>\$ 7,670,402</u>	<u>\$ 429,127</u>	<u>\$ -</u>	<u>\$ 8,099,529</u>

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

Business-type Activities:		
Electric		\$ 82,899
Water		154,430
Newberry Sewage		54,626
Luce County Sewage		<u>7,013</u>
Total Business-type Activities		<u>\$ 298,968</u>

NOTE 5 - LEASES:

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

2015	\$	20,447
2016		20,447
2017		<u>14,320</u>
Total minimum lease payments		55,214
Less amount representing interest		<u>(3,767)</u>
Present value of minimum lease payments	\$	<u>51,447</u>

NOTE 6 - LONG-TERM DEBT:

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

Changes in long-term debt during the twelve months ending December 31, 2014 are summarized as follows:

	Balance 01/01/14	Additions	Deductions	Balance 12/31/14	Due Within One Year
Governmental Activities:					
Installment loan with First National Bank, due in 60 monthly installment payments of \$1,470.64 including interest rate of 2.00%, secured by equipment, maturing 2017.	\$ 56,813	\$ -	\$ 16,663	\$ 40,150	\$ 16,999
2002 General Obligation Bonds, Bonds maturing Serially to 2017 in annual payments ranging from \$41,250 to \$71,250, bearing interest of 4.4% to 4.8%.	<u>157,500</u>	<u>-</u>	<u>36,000</u>	<u>121,500</u>	<u>38,250</u>
Total Governmental Activities	<u>214,313</u>	<u>-</u>	<u>52,663</u>	<u>161,650</u>	<u>55,249</u>
Business-type Activities:					
2002 General Obligation Bonds, Bonds maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	140,000	-	32,000	108,000	12,750
2002 General Obligation Bonds, Bonds maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	52,500	-	12,000	40,500	34,000

NOTE 6 - LONG-TERM DEBT: (Continued)

	Balance 01/01/14	Additions	Deductions	Balance 12/31/14	Due Within One Year
Business-type Activities: (Continued)					
2002 Limited Tax General Obligation Bonds, maturing serially to 2022 in annual amounts ranging from \$25,000 to \$65,000, bearing interest at 4.35% to 5.10%.	500,000	-	45,000	455,000	50,000
2003 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$30,000 to \$70,000, bearing interest ranging from 2.0% to 5.125%.	580,000	-	45,000	535,000	50,000
2005 Water Supply System Revenue Bonds, maturing serially to 2045 in annual amounts ranging from \$20,000 to \$123,000, bearing interest of 4.125%.	2,110,000	-	29,000	2,081,000	31,000
1976 Sanitary Sewage Improvement Bonds, maturing serially to 2016 in annual amounts ranging from \$7,000 to \$32,000, bearing interest of 5.0%.	55,776	-	55,776	-	-
2005 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$50,000 to \$90,000, bearing interest ranging from 3.0% to 4.5%.	540,000	-	65,000	475,000	70,000
2009 Water Supply System Revenue Bonds, maturing serially to 2040 in annual amounts ranging from \$3,000 to \$16,000, bearing interest of 4.125%.	284,000	-	4,000	280,000	4,000
\$6,263,000 Water Supply System Revenue Bond, Series 2014 drawn through December 31, 2014.	-	357,000	-	357,000	-
\$4,500,000 Sanitary Sewer System Revenue Bond, Series 2014	-	111,716	-	111,716	-
Total Business-type Activities	<u>4,262,276</u>	<u>468,716</u>	<u>287,776</u>	<u>4,443,216</u>	<u>251,750</u>
Vested Employee Benefits	<u>5,431</u>	<u>2,251</u>	<u>-</u>	<u>7,682</u>	<u>-</u>
TOTAL LONG-TERM OBLIGATIONS	<u>\$ 4,482,020</u>	<u>\$ 470,967</u>	<u>\$ 340,439</u>	<u>\$ 4,612,548</u>	<u>\$ 306,999</u>

NOTE 6 - LONG-TERM DEBT: (Continued)

The annual principal and interest requirements for the years ending December 31, 2014 and after, excluding vested employee benefits are as follows:

Fiscal:	Governmental Activities		Governmental Activities		Business –type Activities	
	Bonds Payable		Installment Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 38,250	\$ 5,715	\$ 16,999	\$ 649	\$ 251,750	\$ 173,881
2016	40,500	3,956	17,342	306	473,216	173,227
2017	42,750	2,052	5,809	25	373,250	156,626
2018	-	-	-	-	334,000	142,065
2019	-	-	-	-	295,000	129,314
2020 – 2024	-	-	-	-	784,000	487,218
2025 – 2029	-	-	-	-	301,000	374,698
2030 – 2034	-	-	-	-	378,000	306,572
2035 – 2039	-	-	-	-	474,000	221,102
2040 – 2044	-	-	-	-	599,000	113,523
2045 – 2048	-	-	-	-	180,000	11,140
TOTALS	<u>\$ 121,500</u>	<u>\$ 11,723</u>	<u>\$ 40,150</u>	<u>\$ 980</u>	<u>\$ 4,443,216</u>	<u>\$ 2,289,366</u>

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

NOTE 7 - VESTED EMPLOYEE BENEFITS:

Accumulated unpaid vacation, sick leave and longevity for police and other Village employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of December 31, 2014, the liability totaled \$7,682.

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

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

NOTE 8 - PROPERTY TAXES:

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

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

The taxable value of real and personal property located in the Village at December 31, 2014 totaled \$17,805,612. The tax levy for that year was based on the following rates:

NOTE 8 - PROPERTY TAXES: (Continued)

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

NOTE 9 - DEFERRED COMPENSATION PLAN:

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

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

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

Plan Description

The Village contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation, depending on benefit program selected, social security coverage, etc. The most recent period of which actuarial data was available was for fiscal year ended December 31, 2012.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

Funding Policy

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

General – Other	22.37%
Supervisors	109.12%
General Light and Power	6.74%

Annual Pension Cost

During the fiscal year ended December 31, 2014, the Village's contributions totaling \$104,488 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2013. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 28 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 105,943	100%	0
2013	274,254	100%	0
2014	104,488	100%	0

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

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

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

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

	Governmental Activities	Business-type Activities	Total
Normal Cost Component			
Normal Cost	\$ 41,566	\$ 51,689	\$ 93,255
Interest	<u>2,286</u>	<u>2,843</u>	<u>5,129</u>
Total Normal Cost	<u>43,852</u>	<u>54,532</u>	<u>98,384</u>
Amortization Component			
Actuarial Accrued Liability	968,934	1,006,624	1,975,558
Less: Assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability	968,934	1,006,624	1,975,558
Divided by PV Factor	<u>21.1223</u>	<u>21.1223</u>	<u>21.1223</u>
Amortization Payment	45,873	47,657	93,530
Interest	<u>2,523</u>	<u>2,621</u>	<u>5,144</u>
Total Amortization Payment	<u>48,396</u>	<u>50,278</u>	<u>98,674</u>
Annual Required Contribution	<u>\$ 92,248</u>	<u>\$ 104,810</u>	<u>\$ 197,058</u>
Annual Cost for OPEB			
Annual Required Contribution	\$ 92,248	\$ 104,810	\$ 197,058
Interest on Net OPEB Obligation	-	-	-
Adjustments to ARC	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB Cost	92,248	104,810	197,058
Contributions Made – Current Year	<u>(70,718)</u>	<u>(33,594)</u>	<u>(104,312)</u>
Increase in Net OPEB Obligation	21,530	71,216	92,746
Net OPEB Obligation Beginning of Year	<u>68,411</u>	<u>347,521</u>	<u>415,932</u>
Net OPEB Obligation End of Year	<u>\$ 89,941</u>	<u>\$ 418,737</u>	<u>\$ 508,678</u>

The Village provides post retirement health care benefits to all employees who retire from the Village. There were 12 retirees receiving benefits with an approximate annual cost of \$97,957. There were 10 active employees at December 31, 2014.

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended December 31, 2014 were as follows:

Annual OPEB Costs	\$ 197,058
Percentage Contributed	53%
Net OPEB Obligation	\$ 508,678

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance - The Village received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Village. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Village at December 31, 2014.

NOTE 13 - RISK MANAGEMENT:

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

NOTE 14 - CAPITAL CREDITS IN COOPERATIVE:

The Village of Newberry Electric Fund purchases electricity for resale from Cloverland Electric Co-op. Due to operating surpluses by the cooperative, the Village of Newberry's Electric Fund receives patronage capital credits. During the current year the Village received no capital distributions. As of December 31, 2014, the Village has capital credits outstanding of \$703,615. 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 12 - DEFICIT UNRESTRICTED NET POSITION

A significant unrestricted net position deficit existed in the following fund as indicated:

Newberry Sewage	\$	507,375
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Required Supplementary Information

Village of Newberry, Michigan

**Employee Retirement and Benefit Systems
Schedule of Funding Progress
December 31, 2014**

Pension:

Three year trend information as of December 31 follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial Value of Assets	\$ 2,746,847	\$ 2,756,248	\$ 2,993,711
Actuarial Accrued Liability	3,924,738	4,151,637	4,267,713
Unfunded AAL	1,177,891	1,395,389	1,274,002
Funded Ratio	70%	66%	70%
Covered Payroll	540,440	516,904	477,186
UAAL as a Percentage of Covered Payroll	218%	270%	267%

Health Plan:

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

2009	\$	-	\$ 1,677,903	\$ 1,677,903	0.0%	Not Available	-
2012	\$	-	\$ 1,975,558	\$ 1,975,558	0.0%	Not Available	-

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 246,800	\$ 330,800	\$ 241,828	\$ (88,972)
State Sources	153,000	243,670	243,997	327
Charges for Services	104,625	117,155	117,475	320
Interest and Rentals	650	1,050	1,072	22
Refunds and Reimbursements	446,780	399,680	400,159	479
TOTAL REVENUES	951,855	1,092,355	1,004,531	(87,824)
EXPENDITURES				
Legislative:				
Village Council	18,845	21,845	21,519	326
General Government:				
Village President	5,135	7,635	7,532	103
Administration	59,000	72,000	71,820	180
Accounting	56,860	50,360	49,709	651
Attorney	2,600	2,700	1,636	1,064
Village Clerk	16,999	15,200	15,088	112
Audit	83,250	8,130	8,085	45
Treasurer	38,250	12,150	11,950	200
Building and Grounds	23,151	24,575	24,280	295
Motor Pool	87,100	99,900	99,173	727
Total General Government	372,345	292,650	289,273	3,377
Public Safety:				
Police Department	46,650	47,860	46,781	1,079
Total Public Safety	46,650	47,860	46,781	1,079
Public Works:				
Department of Public Works	4,550	1,040	860	180
Building Demolition	15,400	72,200	71,729	471
Sidewalks	11,100	10,100	9,114	986
Street Lighting	21,600	19,800	19,713	87
Sewers	40,100	34,000	33,688	312
Storm Sewer Construction	3,900	3,900	3,085	815
Rubbish and Garbage	68,440	76,040	75,505	535
Total Public Works	165,090	217,080	213,694	3,386
Other Expenditures				
Fringe Benefits	354,360	312,060	204,423	107,637
Insurance and Bonds	26,850	21,950	21,853	97
Budget Stabilization	17,060	6,260	-	6,260
Total Other Expenditures	398,270	340,270	226,276	113,994

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Debt Service	59,750	61,250	61,118	132
TOTAL EXPENDITURES	<u>1,060,950</u>	<u>980,955</u>	<u>858,661</u>	<u>122,294</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(109,095)</u>	<u>111,400</u>	<u>145,870</u>	<u>34,470</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	52,800	-	-	-
Transfers (Out)	<u>(46,800)</u>	<u>(111,400)</u>	<u>(110,965)</u>	<u>435</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,000</u>	<u>(111,400)</u>	<u>(110,965)</u>	<u>435</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (103,095)</u>	<u>\$ -</u>	<u>34,905</u>	<u>\$ 34,905</u>
FUND BALANCES, JANUARY 1			<u>485,908</u>	
FUND BALANCES, DECEMBER 31			<u>\$ 520,813</u>	

Village of Newberry, Michgian

**Required Supplementary Information
Budgetary Comparison Schedule
Fire Operating Fund
Year Ended December 31, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State	\$ 15,000	\$ 2,000	\$ 2,200	\$ 200
Local Sources	68,332	42,132	42,226	94
Charges for Services	29,200	11,000	11,060	60
Interest and Rentals	802	302	583	281
Refunds and Reimbursements	-	8,200	8,376	176
TOTAL REVENUES	113,334	63,634	64,445	811
EXPENDITURES				
Public Safety	147,500	97,800	96,580	1,220
TOTAL EXPENDITURES	147,500	97,800	96,580	1,220
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(34,166)	(34,166)	(32,135)	2,031
OTHER FINANCING SOURCES (USES)				
Transfers In	34,166	30,166	30,233	67
TOTAL OTHER FINANCING SOURCES (USES)	34,166	30,166	30,233	67
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ (4,000)	(1,902)	\$ 2,098
FUND BALANCES, BEGINNING OF YEAR			156,013	
FUND BALANCES, END OF YEAR			\$ 154,111	

Other Information

Village of Newberry, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2014

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	TORC	Downtown/ Streetscape	
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 117,353	\$ -	\$ 14,413	\$ 20,750	\$ 290	\$ -	\$ 152,806
Taxes Receivable	-	8,421	-	3,728	-	-	12,149
Due From Other Funds	-	155,782	18,602	550	-	-	174,934
Due From Other Governmental Units	14,110	14,297	-	-	-	-	28,407
TOTAL ASSETS	\$ 131,463	\$ 178,500	\$ 33,015	\$ 25,028	\$ 290	\$ -	\$ 368,296
LIABILITIES:							
Due to Other Funds	\$ 130,308	\$ 169,874	\$ 10,456	\$ 17,910	\$ -	\$ -	\$ 328,548
Accrued Liabilities	382	1,882	-	-	-	-	2,264
TOTAL LIABILITIES	130,690	171,756	10,456	17,910	-	-	330,812
DEFERRED INFLOWS OF RESOURCES							
Unearned Revenue	-	5,768	-	-	-	-	5,768
FUND BALANCE:							
Restricted	773	976	22,559	7,118	290	-	31,716
TOTAL FUND BALANCE	773	976	22,559	7,118	290	-	31,716
TOTAL LIABILITIES AND FUND BALANCES	\$ 131,463	\$ 178,500	\$ 33,015	\$ 25,028	\$ 290	\$ -	\$ 368,296

Village of Newberry, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2014

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	TORC	Downtown/ Streetscape	
REVENUES							
Taxes	\$ -	\$ 75,461	\$ -	\$ 33,517	\$ -	\$ -	\$ 108,978
State Sources	98,152	71,411	-	-	-	-	169,563
Local Sources	-	17,940	27,979	-	33,659	-	79,578
Interest and Rentals	-	-	82	50	349	58	539
TOTAL REVENUES	98,152	164,812	28,061	33,567	34,008	58	358,658
EXPENDITURES							
General Government	-	-	-	-	159,112	-	159,112
Public Works	71,373	220,018	-	-	-	40,577	331,968
Debt Service	-	-	48,424	-	-	-	48,424
TOTAL EXPENDITURES	71,373	220,018	48,424	-	159,112	40,577	539,504
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,779	(55,206)	(20,363)	33,567	(125,104)	(40,519)	(180,846)
OTHER FINANCING SOURCES (USES)							
Transfers In	-	56,000	20,446	-	24,810	32,973	134,229
Transfers (Out)	(27,000)	-	-	(26,497)	-	-	(53,497)
TOTAL OTHER FINANCING SOURCES (USES)	(27,000)	56,000	20,446	(26,497)	24,810	32,973	80,732
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(221)	794	83	7,070	(100,294)	(7,546)	(100,114)
FUND BALANCES, BEGINNING OF YEAR	994	182	22,476	48	100,584	7,546	131,830
FUND BALANCES, END OF YEAR	<u>\$ 773</u>	<u>\$ 976</u>	<u>\$ 22,559</u>	<u>\$ 7,118</u>	<u>\$ 290</u>	<u>\$ -</u>	<u>\$ 31,716</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

ROBERT L. HASKE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Village of Newberry, Michigan's basic financial statements and have issued our report thereon dated June 5, 2015.

Internal Control Over Financial Reporting

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

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

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

Honorable President and Members
of the Village Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Newberry, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2014-001.

Village of Newberry, Michigan's Response to Finding

The Village of Newberry, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Village of Newberry, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



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

June 5, 2015

Significant Deficiency

Noncompliance with State Statutes

Deficit Unrestricted Fund Balance

Finding 2014-001

Criteria: The deficit in unrestricted net position is contrary to the provisions of Section 15(2) of Public Act 2 of 1968, as amended.

Condition: The Village's Newberry Sewage Fund has a deficit in unrestricted net position that is considered to be significant.

Cause: The Newberry Sewage Fund has a negative unrestricted net position balance of \$507,375.

Effect: The Village is in noncompliance with Public Act 2 of 1968, as amended.

Recommendation: We recommend that the Village develop a plan to eliminate the deficit as soon as possible.

Planned Corrective Action: The Village contacted the State and was told at that time a deficit reduction plan should not be filed until the State contacted them, through a letter, to submit a deficit reduction plan.

- *Contact Person(s) Responsible for Correction:*
Charles Cleaver, Manager
- *Anticipated Completion Date:*
As soon as possible.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, for the year ended December 31, 2014, and have issued our report thereon June 5, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated November 12, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 such 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.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated May 19, 2015.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Comments and Recommendations

Personal Property Taxes (Prior Year)

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

Status: Uncorrected.

Accrued payroll & Compensated Absences (Prior Year)

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

Status: Uncorrected.

Customer Receivable (Prior Year)

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

Status: Uncorrected.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Council and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Uniform Administrative Requirements

During December 2013, the Office of Management and Budget released its final version of the "*Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*." The guidance is applicable to federal grants and cooperative agreements and provides a comprehensive consolidation and revision of OMB Circulars which currently govern Federal and some non-Federal entities. The guidance combines A-110 and A-102 into a single set of administrative rules, combines A-21, A-87 and A-122 into a single set of consolidated cost principles and revises the language of A-133. This publication is designed to provide a single document which will serve as a "one-stop shop" for financial assistance regulatory requirements for all awarding agencies. The new requirements will be effective and applicable for audits of years beginning on or after December 26, 2014.

Revisions Related to Single Audit Requirements

The Office of Management and Budget set forth new consolidated audit standards for entities receiving Federal financial assistance awards and replaces OMB Circular A-133. The changes within the final guidance primarily combine the guidance in OMB A-133 and A-50 on audit follow-up. The guidance reflects a movement to focus these audits and oversight efforts on higher dollar, higher risk awards and focus oversight on improper payments, waste, fraud, and abuse.

Most significantly, the threshold triggering a single audit or program-specific audit requirements is increased to \$750,000 or more in annual Federal awards. These requirements apply equally to recipients and sub-recipients under Federal programs. The final guidelines incorporate an exception to these audit requirements for non-U.S.-based entities expending Federal awards.

Further, the final guidance increases the minimum threshold for reporting questioned costs from \$10,000 to \$25,000 to focus on the audit findings presenting the greatest risk. OMB believes this will eliminate smaller-dollar audit findings, which require utilization of resources for follow-up audits that are unlikely to indicate significant weaknesses in internal controls.

These changes necessitate a careful review and analysis of an organization's current business practices. Although OMB has raised certain thresholds for audit and materiality, it has also improved mechanisms of oversight related to mandatory disclosures, pre-award review of risks, standards for financial and program management, sub-recipient monitoring, and remedies for noncompliance. The revisions are effective for audits of years beginning on or after December 26, 2014.

Other Matters

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

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

Conclusion

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

This information is intended solely for the use of the Village of Newberry, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



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

June 5, 2015