

# **VILLAGE OF PENTWATER**

Oceana County, Michigan

## **FINANCIAL STATEMENTS**

March 31, 2017

# VILLAGE OF PENTWATER

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## INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Pentwater  
Oceana County, Michigan

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 Pentwater as of and for the year ended March 31, 2017, 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.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of March 31, 2017, 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 (pages 4 through 8), schedule of changes in net pension liability and related ratios (page 47), schedule of defined benefit plan pension contributions (page 48), schedules of other postemployment benefits funding progress and employer contributions (page 49), and budgetary comparison information (page 50) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pentwater's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017 on our consideration of the Village of Pentwater'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 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 Pentwater's internal control over financial reporting and compliance.

*Bertchume & Co.*

Saginaw Michigan  
June 26, 2017

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# VILLAGE OF PENTWATER

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2017

As management of the Village of Pentwater (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

### FINANCIAL HIGHLIGHTS:

- The Village's combined total net position is reported as \$7,348,474 for the fiscal year ended March 31, 2017, compared to \$7,047,718 for the fiscal year ended March 31, 2016.
- In the Village's governmental activities, revenues generated were \$1,520,878 while expenses totaled \$1,308,797.
- In the Village's business-type activities, revenues generated were \$1,039,932 while expenses totaled \$951,257.
- Total net position increased by \$300,756.

### OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the Village's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net position. The *statement of activities* presents all of the Village's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the Village of Pentwater are divided into two categories:

**Governmental Activities** – Most of the Village's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

**Business-type Activities** – The Village charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include water distribution, wastewater collection, and marina.

#### Fund Financial Statements:

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

# VILLAGE OF PENTWATER

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2017

The Village has three types of funds:

**Governmental Funds** – Many of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The Village maintains six (6) individual governmental funds. Separate information is presented for the General Fund, which is considered to be a "major" fund. Data from the other five (5) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Village adopts an annual budget for each of its governmental funds, except for its debt service fund. Budgetary comparison statements have been provided for major governmental funds to demonstrate compliance with those budgets.

**Proprietary Funds** – Proprietary funds are used to report services where the Village charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows.
- Internal service funds are used to report activities that provide supplies and services to the Village's other programs. The Village's internal service fund is the Motor Pool Fund.

**Fiduciary Funds** – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the Village's own programs.

### **Notes to the Financial Statements:**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information:**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

# VILLAGE OF PENTWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2017

### THE VILLAGE OF PENTWATER AS A WHOLE:

The Village's total combined net position for the fiscal year ended March 31, 2017 is \$7,348,474, consisting of \$1,980,938 in governmental activities and \$5,367,536 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$2,996,396. Governmental activities unrestricted total is \$651,552, while business-type activities is \$2,344,844.

The following table shows comparisons of total assets, total deferred outflows, total liabilities, and total net position in a condensed format as of March 31, 2017 and March 31, 2016.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Assets:</b>						
Current and other assets	\$ 1,903,438	\$ 1,698,222	\$ 2,924,924	\$ 2,789,463	\$ 4,828,362	\$ 4,487,685
Capital assets	903,997	941,930	7,841,540	8,003,691	8,745,537	8,945,621
Total assets	<u>2,807,435</u>	<u>2,640,152</u>	<u>10,766,464</u>	<u>10,793,154</u>	<u>13,573,899</u>	<u>13,433,306</u>
<b>Deferred outflows</b>	<u>121,213</u>	<u>98,078</u>	<u>28,432</u>	<u>23,006</u>	<u>149,645</u>	<u>121,084</u>
<b>Liabilities:</b>						
Other liabilities	51,695	47,914	23,249	16,087	74,944	64,001
Long-term liabilities	896,015	921,459	5,404,111	5,521,212	6,300,126	6,442,671
Total liabilities	<u>947,710</u>	<u>969,373</u>	<u>5,427,360</u>	<u>5,537,299</u>	<u>6,375,070</u>	<u>6,506,672</u>
<b>Net position:</b>						
Net investment in capital assets	903,997	841,930	2,597,187	2,627,338	3,501,184	3,469,268
Restricted	425,389	426,473	425,505	395,505	850,894	821,978
Unrestricted	<u>651,552</u>	<u>500,454</u>	<u>2,344,844</u>	<u>2,256,018</u>	<u>2,996,396</u>	<u>2,756,472</u>
Total net position	<u>\$ 1,980,938</u>	<u>\$ 1,768,857</u>	<u>\$ 5,367,536</u>	<u>\$ 5,278,861</u>	<u>\$ 7,348,474</u>	<u>\$ 7,047,718</u>

The Village's combined total net position increased by \$300,756 during the current fiscal year. Governmental activities increased by \$212,081 while business-type activities increased by \$88,675.

### Governmental Activities:

The Village's total governmental revenue is reported at \$1,520,878, a decrease of \$11,726 from the prior fiscal year. Total expenses increased by \$48,930 from the prior fiscal year.

### Business-type Activities:

The Village's total business-type revenue is reported at \$1,039,932, an increase of \$3,772 from the prior fiscal year. Total expenses decreased by \$19,376 from the prior fiscal year.



# VILLAGE OF PENTWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2017

The following table shows the comparison of the change in net position in a condensed format for the fiscal years ended March 31, 2017 and March 31, 2016.

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 320,711	\$ 342,722	\$ 958,863	\$ 979,066	\$ 1,279,574	\$ 1,321,788
Operating grants	124,468	125,018	-	5,500	124,468	130,518
Capital grants	-	125	33,780	-	33,780	125
General revenues						
Property taxes	952,532	948,370	-	-	952,532	948,370
Franchise fees	34,847	32,097	-	-	34,847	32,097
Unrestricted grants	69,213	64,467	-	-	69,213	64,467
Investment earnings	9,808	3,774	12,774	10,789	22,582	14,563
Other	9,299	16,031	34,515	40,805	43,814	56,836
Total revenues	<u>1,520,878</u>	<u>1,532,604</u>	<u>1,039,932</u>	<u>1,036,160</u>	<u>2,560,810</u>	<u>2,568,764</u>
<b>Expenses:</b>						
General government	355,183	337,935	-	-	355,183	337,935
Public safety	309,253	281,879	-	-	309,253	281,879
Public works	367,544	395,410	-	-	367,544	395,410
Community and economic development	69,629	59,278	-	-	69,629	59,278
Recreation and culture	187,853	172,672	-	-	187,853	172,672
Interest on long-term debt	19,335	12,693	-	-	19,335	12,693
Sewer	-	-	660,688	648,735	660,688	648,735
Water	-	-	198,130	211,492	198,130	211,492
Marina	-	-	92,439	110,406	92,439	110,406
Total expenses	<u>1,308,797</u>	<u>1,259,867</u>	<u>951,257</u>	<u>970,633</u>	<u>2,260,054</u>	<u>2,230,500</u>
<b>Changes in net position</b>	212,081	272,737	88,675	65,527	300,756	338,264
Net position, beginning of year	<u>1,768,857</u>	<u>1,496,120</u>	<u>5,278,861</u>	<u>5,213,334</u>	<u>7,047,718</u>	<u>6,709,454</u>
Net position, end of year	<u>\$ 1,980,938</u>	<u>\$ 1,768,857</u>	<u>\$ 5,367,536</u>	<u>\$ 5,278,861</u>	<u>\$ 7,348,474</u>	<u>\$ 7,047,718</u>

### THE VILLAGE OF PENTWATER'S FUNDS:

Presentation of the Village of Pentwater's major funds and aggregate nonmajor funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

# VILLAGE OF PENTWATER

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2017

The General Fund is the Village's largest governmental fund and the only fund, in the current year, considered a major fund. It pays for most of the Village's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended March 31, 2017, General Fund financing sources exceeded its financing uses by \$185,948, increasing its ending fund balance to \$1,179,020.

### **General Fund Budgetary Highlights:**

The General Fund, as originally adopted, projected a zero change in fund balance. During the year, the Village made no budget amendments. The actual results for the year yielded an increase in fund balance of \$185,948.

### **Capital Assets and Debt Administration:**

At March 31, 2017, the Village of Pentwater had \$8,745,537 invested in a range of capital assets including land, buildings, equipment, vehicles, water and sewer lines, streets, and other infrastructure, net of accumulated depreciation. At March 31, 2016, this total was \$8,945,621. Additional information about the Village's capital assets is presented in Note 1 and Note 6 of the Notes to the Financial Statements.

At March 31, 2017, the Village of Pentwater's total indebtedness (not including compensated absences, net OPEB obligation, and net pension liability) was \$5,244,353. Of this amount, the Village pledges its limited tax full faith and credit on the outstanding amount of \$707,353. The remaining outstanding amount of \$4,537,000 was backed by specific revenue sources. Additional information about the Village's indebtedness is presented in Note 7 of the Notes to the Financial Statements.

### **Economic Factors:**

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the Village's residents with the same level of service to which they have been accustomed. However, should State-shared revenues be reduced further, reductions in services are inevitable.

### **Contacting the Village's Financial Management:**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Pentwater, 327 South Hancock Street, Pentwater, Michigan, 49449.

***BASIC FINANCIAL STATEMENTS***

# VILLAGE OF PENTWATER

## STATEMENT OF NET POSITION

March 31, 2017

	<i>Governmental</i>	<i>Business-type</i>	<i>Total</i>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,297,626	\$ 1,761,177	\$ 3,058,803
Investments	505,062	501,002	1,006,064
Receivables	88,850	216,790	305,640
Internal balances	11,900	(11,900)	-
Inventory	-	32,350	32,350
Restricted cash and cash equivalents	-	425,505	425,505
Capital assets not being depreciated	74,306	214,583	288,889
Capital assets being depreciated, net	<u>829,691</u>	<u>7,626,957</u>	<u>8,456,648</u>
Total assets	<u>2,807,435</u>	<u>10,766,464</u>	<u>13,573,899</u>
<b>Deferred outflows of resources:</b>			
Related to pension	<u>121,213</u>	<u>28,432</u>	<u>149,645</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	51,695	9,066	60,761
Unearned revenue	-	14,183	14,183
Long-term liabilities:			
Due within one year			
Current portion of long-term debt	-	60,000	60,000
Due in more than one year			
Compensated absences	23,619	2,949	26,568
Long-term debt	-	5,184,353	5,184,353
Net OPEB obligation	419,591	50,594	470,185
Net pension liability	<u>452,805</u>	<u>106,215</u>	<u>559,020</u>
Total liabilities	<u>947,710</u>	<u>5,427,360</u>	<u>6,375,070</u>
<b>Net position:</b>			
Net investment in capital assets	903,997	2,597,187	3,501,184
Restricted for:			
Debt service	35,089	425,505	460,594
Downtown development	31,240	-	31,240
Friendship Center	53,281	-	53,281
Streets	305,779	-	305,779
Unrestricted	<u>651,552</u>	<u>2,344,844</u>	<u>2,996,396</u>
Total net position	<u>\$ 1,980,938</u>	<u>\$ 5,367,536</u>	<u>\$ 7,348,474</u>

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

# VILLAGE OF PENTWATER

## STATEMENT OF ACTIVITIES

Year Ended March 31, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Functions/Programs</b>					
<i>Governmental activities:</i>					
General government	\$ 355,183	\$ 176,372	\$ -	\$ -	\$ (178,811)
Public safety	309,253	897	3,644	-	(304,712)
Public works	367,544	120,501	114,602	-	(132,441)
Community and economic development	69,629	2,136	-	-	(67,493)
Recreation and culture	187,853	20,805	6,222	-	(160,826)
Interest on long-term debt	19,335	-	-	-	(19,335)
Total governmental activities	<u>\$ 1,308,797</u>	<u>\$ 320,711</u>	<u>\$ 124,468</u>	<u>\$ -</u>	<u>\$ (863,618)</u>
<i>Business-type activities:</i>					
Sewer	\$ 660,688	\$ 579,474	\$ -	\$ -	\$ (81,214)
Water	198,130	284,533	-	-	86,403
Marina	92,439	94,856	-	33,780	36,197
Total business-type activities	<u>\$ 951,257</u>	<u>\$ 958,863</u>	<u>\$ -</u>	<u>\$ 33,780</u>	<u>\$ 41,386</u>

continued

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

# VILLAGE OF PENTWATER

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## STATEMENT OF ACTIVITIES, CONTINUED

Year Ended March 31, 2017

	<i><u>Governmental Activities</u></i>	<i><u>Business- type Activities</u></i>	<i><u>Total</u></i>
<i>Changes in net position:</i>			
Net (Expense) Revenue	\$ (863,618)	\$ 41,386	\$ (822,232)
General revenues:			
Taxes:			
Property taxes, levied for general purpose	737,693	-	737,693
Property taxes, levied for specific purposes	103,227	-	103,227
Property taxes, levied for debt service	111,612	-	111,612
Franchise fees	34,847	-	34,847
Grants and contributions not restricted to specific programs	69,213	-	69,213
Unrestricted investment earnings	9,808	12,774	22,582
Other	9,299	34,515	43,814
Total general revenues	<u>1,075,699</u>	<u>47,289</u>	<u>1,122,988</u>
Changes in net position	212,081	88,675	300,756
Net position, beginning of year	<u>1,768,857</u>	<u>5,278,861</u>	<u>7,047,718</u>
Net position, end of year	<u>\$ 1,980,938</u>	<u>\$ 5,367,536</u>	<u>\$ 7,348,474</u>

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

# VILLAGE OF PENTWATER

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## GOVERNMENTAL FUNDS

### BALANCE SHEET

March 31, 2017

	<i>General Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 646,236	\$ 403,890	\$ 1,050,126
Investments	505,062	-	505,062
Taxes receivable	16,557	3,060	19,617
Accounts receivable	34,306	-	34,306
Due from other governments	12,801	22,126	34,927
Due from other funds	11,900	-	11,900
	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,226,862	\$ 429,076	\$ 1,655,938
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 27,755	\$ 1,402	\$ 29,157
Accrued expenses	20,087	1,685	21,772
Deposits payable	-	600	600
	<hr/>	<hr/>	<hr/>
Total liabilities	47,842	3,687	51,529
<b>Fund balances:</b>			
Restricted for:			
Debt service	-	35,089	35,089
Downtown development	-	31,240	31,240
Friendship Center	-	53,281	53,281
Streets	-	305,779	305,779
Unassigned	1,179,020	-	1,179,020
	<hr/>	<hr/>	<hr/>
Total fund balances	1,179,020	425,389	1,604,409
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 1,226,862	\$ 429,076	\$ 1,655,938

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

# VILLAGE OF PENTWATER

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## RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

March 31, 2017

<b>Fund balances of governmental funds</b>	\$ 1,604,409
Net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets not being depreciated	74,306
Capital assets being depreciated, net	829,691
Capital assets accounted for in the internal service fund	(149,461)
Deferred outflows of resources from the differences between projected and actual investment earnings of the pension plan as well as Village contributions made after the measurement date of the net pension liability are not reported in the funds.	121,213
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.	
Compensated absences payable	(23,619)
Net OPEB obligation	(419,591)
Net OPEB obligation accounted for in the internal service fund	23,021
Net pension liability	(452,805)
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.	<u>373,774</u>
<b>Net position of governmental activities</b>	<u><u>\$ 1,980,938</u></u>

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



# VILLAGE OF PENTWATER

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## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2017

	<i>General Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
<b>Revenues:</b>			
Property taxes	\$ 751,236	\$ 215,040	\$ 966,276
Licenses and permits	34,847	-	34,847
State grants	77,917	113,355	191,272
Contributions from other units	3,000	-	3,000
Charges for services	300,819	-	300,819
Fines and forfeits	872	-	872
Interest and rents	30,338	3,565	33,903
Other revenue	12,202	319	12,521
	<u>1,211,231</u>	<u>332,279</u>	<u>1,543,510</u>
Total revenues			
<b>Expenditures:</b>			
Current			
General government	349,086	-	349,086
Public safety	293,737	-	293,737
Public works	203,062	154,084	357,146
Community and economic development	42,772	26,857	69,629
Recreation and culture	132,876	29,915	162,791
Capital outlay	3,750	3,172	6,922
Debt service			
Principal	-	100,000	100,000
Interest and fees	-	19,335	19,335
	<u>1,025,283</u>	<u>333,363</u>	<u>1,358,646</u>
Total expenditures			
Changes in fund balances	185,948	(1,084)	184,864
Fund balances, beginning of year	993,072	426,473	1,419,545
Fund balances, end of year	<u>\$ 1,179,020</u>	<u>\$ 425,389</u>	<u>\$ 1,604,409</u>

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

# VILLAGE OF PENTWATER

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## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2017

<b>Changes in fund balances of governmental funds</b>	\$ 184,864
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 depreciated over their estimated useful lives and reported as depreciation expense.	
Purchases of capital assets	37,301
Depreciation expense	(75,234)
Purchases of capital assets accounted for in the internal service fund	(37,301)
Depreciation expense accounted for in the internal service fund	30,668
Revenues are recorded in the statement of activities when they are earned; they are recognized in the governmental funds when they are available.	(3,813)
Payments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net position.	100,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in compensated absences payable	(2,143)
Change in net OPEB obligation	(4,000)
Change in net pension liability and related deferred outflow of resources	(44,096)
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The net revenues (expenses) are recorded in the governmental activities.	
Operating income in the internal service fund	25,631
Interest income in the internal service fund	204
<b>Change in net position of governmental activities</b>	<u>\$ 212,081</u>

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

# VILLAGE OF PENTWATER

## PROPRIETARY FUNDS

### STATEMENT OF NET POSITION

March 31, 2017

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 991,860	\$ 769,317	\$ -	\$ 1,761,177	\$ 247,500
Investments	501,002	-	-	501,002	-
Accounts receivable	149,351	67,439	-	216,790	-
Inventory	-	32,350	-	32,350	-
Total current assets	<u>1,642,213</u>	<u>869,106</u>	<u>-</u>	<u>2,511,319</u>	<u>247,500</u>
<b>Noncurrent assets:</b>					
Restricted cash and cash equivalents					
Bond reserve	81,440	-	-	81,440	-
Bond RRI	119,440	-	-	119,440	-
Operation and maintenance	224,625	-	-	224,625	-
Capital assets not being depreciated	2,196	-	212,387	214,583	-
Capital assets being depreciated, net	<u>6,118,114</u>	<u>1,330,112</u>	<u>178,731</u>	<u>7,626,957</u>	<u>149,461</u>
Total noncurrent assets	<u>6,545,815</u>	<u>1,330,112</u>	<u>391,118</u>	<u>8,267,045</u>	<u>149,461</u>
Total assets	<u>8,188,028</u>	<u>2,199,218</u>	<u>391,118</u>	<u>10,778,364</u>	<u>396,961</u>
<b>Deferred outflows of resources:</b>					
Related to pension	<u>13,469</u>	<u>14,963</u>	<u>-</u>	<u>28,432</u>	<u>-</u>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Accounts payable	5,984	1,520	418	7,922	-
Accrued expenses	206	480	458	1,144	166
Due to other funds	-	-	11,900	11,900	-
Unearned revenue	-	-	14,183	14,183	-
Current portion of long-term debt	-	60,000	-	60,000	-
Total current liabilities	<u>6,190</u>	<u>62,000</u>	<u>26,959</u>	<u>95,149</u>	<u>166</u>
<b>Noncurrent liabilities:</b>					
Compensated absences payable	1,397	1,552	-	2,949	-
Bonds payable, net of current portion	4,537,000	647,353	-	5,184,353	-
Net OPEB obligation	22,741	27,853	-	50,594	23,021
Net pension liability	<u>50,312</u>	<u>55,903</u>	<u>-</u>	<u>106,215</u>	<u>-</u>
Total noncurrent liabilities	<u>4,611,450</u>	<u>732,661</u>	<u>-</u>	<u>5,344,111</u>	<u>23,021</u>
Total liabilities	<u>4,617,640</u>	<u>794,661</u>	<u>26,959</u>	<u>5,439,260</u>	<u>23,187</u>

continued

The accompanying notes are an integral part of these financial statements

# VILLAGE OF PENTWATER

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## PROPRIETARY FUNDS

### STATEMENT OF NET POSITION, CONTINUED

March 31, 2017

	<u>Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Total</u>	
<b>Net position:</b>					
Net investment in capital assets	1,583,310	622,759	391,118	2,597,187	149,461
Restricted for:					
Debt service	425,505	-	-	425,505	-
Unrestricted (deficit)	<u>1,575,042</u>	<u>796,761</u>	<u>(26,959)</u>	<u>2,344,844</u>	<u>224,313</u>
Total net position	<u>\$ 3,583,857</u>	<u>\$1,419,520</u>	<u>\$ 364,159</u>	<u>\$ 5,367,536</u>	<u>\$ 373,774</u>

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

# VILLAGE OF PENTWATER

## PROPRIETARY FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended March 31, 2017

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
<b>Operating revenues:</b>					
Charges for services	\$ 566,071	\$ 273,548	\$ 94,481	\$ 934,100	\$ -
Penalties	5,403	2,285	-	7,688	-
Equipment rental	-	-	-	-	115,931
Other	8,000	8,700	375	17,075	-
Total operating revenues	<u>579,474</u>	<u>284,533</u>	<u>94,856</u>	<u>958,863</u>	<u>115,931</u>
<b>Operating expenses:</b>					
Personal services	43,969	33,300	50,202	127,471	12,807
Supplies	49,563	15,841	4,256	69,660	15,429
Contracted services	43,391	10,198	8,273	61,862	-
Administrative expense	93,075	44,450	4,200	141,725	10,500
Other services and charges	89,617	33,836	16,763	140,216	20,896
Depreciation	208,750	44,889	8,745	262,384	30,668
Total operating expenses	<u>528,365</u>	<u>182,514</u>	<u>92,439</u>	<u>803,318</u>	<u>90,300</u>
Operating income (loss)	<u>51,109</u>	<u>102,019</u>	<u>2,417</u>	<u>155,545</u>	<u>25,631</u>
<b>Non-operating revenues (expenses):</b>					
Interest income	10,326	2,432	16	12,774	204
Rental income	-	34,515	-	34,515	-
Interest expense	<u>(132,323)</u>	<u>(15,616)</u>	<u>-</u>	<u>(147,939)</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>(121,997)</u>	<u>21,331</u>	<u>16</u>	<u>(100,650)</u>	<u>204</u>
Changes in fund net position before capital contributions	(70,888)	123,350	2,433	54,895	25,835
<b>Capital contributions - state grant</b>	<u>-</u>	<u>-</u>	<u>33,780</u>	<u>33,780</u>	<u>-</u>
Changes in fund net position	(70,888)	123,350	36,213	88,675	25,835
Net position, beginning of year	<u>3,654,745</u>	<u>1,296,170</u>	<u>327,946</u>	<u>5,278,861</u>	<u>347,939</u>
Net position, end of year	<u>\$ 3,583,857</u>	<u>\$ 1,419,520</u>	<u>\$ 364,159</u>	<u>\$ 5,367,536</u>	<u>\$ 373,774</u>

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

# VILLAGE OF PENTWATER

*PROPRIETARY FUNDS*  
**STATEMENT OF CASH FLOWS**  
 Year Ended March 31, 2017

	<u>Enterprise Funds</u>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
<b>Cash flow from operating activities:</b>					
Cash received from customers	\$ 584,978	\$ 283,292	\$ 96,794	\$ 965,064	\$ -
Cash received for interfund services	-	-	11,900	11,900	115,931
Cash payments to and on behalf of employees	(39,973)	(28,211)	(50,166)	(118,350)	(11,781)
Cash payments to suppliers for goods and services	(270,828)	(101,994)	(24,918)	(397,740)	(47,365)
Net cash provided (used) by operating activities	<u>274,177</u>	<u>153,087</u>	<u>33,610</u>	<u>460,874</u>	<u>56,785</u>
<b>Cash flows from capital and related financing activities:</b>					
Capital contributions - state grant	-	-	33,780	33,780	-
Acquisition of capital assets	(8,863)	(7,010)	(84,360)	(100,233)	(37,301)
Principal payments	(77,000)	(55,000)	-	(132,000)	-
Interest paid	(132,323)	(15,616)	-	(147,939)	-
Net cash used by capital and related financing activities	<u>(218,186)</u>	<u>(77,626)</u>	<u>(50,580)</u>	<u>(346,392)</u>	<u>(37,301)</u>
<b>Cash flows from investing activities:</b>					
Interest received	10,326	2,432	16	12,774	204
Rent received	-	34,515	-	34,515	-
Net cash provided by investing activities	<u>10,326</u>	<u>36,947</u>	<u>16</u>	<u>47,289</u>	<u>204</u>
Net increase (decrease) in cash, cash equivalents, and investments	66,317	112,408	(16,954)	161,771	19,688
Cash, cash equivalents, and investments, beginning of year	<u>1,852,050</u>	<u>656,909</u>	<u>16,954</u>	<u>2,525,913</u>	<u>227,812</u>
Cash, cash equivalents, and investments, end of year	<u>\$ 1,918,367</u>	<u>\$ 769,317</u>	<u>\$ -</u>	<u>\$ 2,687,684</u>	<u>\$ 247,500</u>

continued

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

# VILLAGE OF PENTWATER

## PROPRIETARY FUNDS

### STATEMENT OF CASH FLOWS, CONTINUED

Year Ended March 31, 2017

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total</i>	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 51,109	\$ 102,019	\$ 2,417	\$ 155,545	\$ 25,631
Adjustments:					
Depreciation	208,750	44,889	8,745	262,384	30,668
Change in assets and liabilities:					
Accounts receivable	5,504	(1,241)	-	4,263	-
Prepaid expenses	890	909	8,348	10,147	233
Accounts payable	3,928	1,422	226	5,576	(773)
Accrued expenses	(331)	(57)	36	(352)	(156)
Due to other funds	-	-	11,900	11,900	-
Unearned revenue	-	-	1,938	1,938	-
Net OPEB obligation	(1,028)	(766)	-	(1,794)	1,182
Net pension liability and related deferred outflows of resources	4,899	5,445	-	10,344	-
Net cash provided (used) by operating activities	<u>\$ 274,177</u>	<u>\$ 153,087</u>	<u>\$ 33,610</u>	<u>\$ 460,874</u>	<u>\$ 56,785</u>

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

# VILLAGE OF PENTWATER

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## *FIDUCIARY FUND*

### **STATEMENT OF FIDUCIARY NET POSITION**

March 31, 2017

	<b><i>OPEB Trust Fund</i></b>
<b>Assets:</b>	
Investments held in OPEB trust	\$ <u>75,330</u>
<b>Net position:</b>	
Held in trust for retiree health insurance	\$ <u>75,330</u>

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



# VILLAGE OF PENTWATER

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## FIDUCIARY FUND

### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended March 31, 2017

	<i><b>OPEB Trust Fund</b></i>
<b>Additions:</b>	
Employer contribution	\$ 10,000
Net investment income (loss)	<u>8,487</u>
Total additions	<u>18,487</u>
<b>Deductions:</b>	
Fees	<u>299</u>
Net increase	<u>18,188</u>
Net position, beginning of year	<u>57,142</u>
Net position, end of year	<u><u>\$ 75,330</u></u>

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

***NOTES TO FINANCIAL STATEMENTS***

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The following is a summary of the significant accounting policies used by the Village of Pentwater, (the "Village"):

#### **Reporting Entity:**

The Village of Pentwater is governed by a seven-member Council. The Village provides the following services: general administrative services, police protection, highway and street maintenance, recreation and other governmental functions.

The accompanying financial statements present the Village as the primary government. Component units are separate legal entities for which the Village is financially accountable. Blended component units are, in substance, part of the primary government's operations, and presented as funds of the primary government. Discretely presented component units are reported in separate columns in the government-wide financial statements. The Village has determined that it has one component unit and that it should be blended.

#### **Blended Component Unit:**

*Downtown Development Authority* – The Village appoints all board members and approves annual budgets for the Downtown Development Authority (DDA), and the legal liability for the general obligation debt of the DDA, if any, remains with the Village. The DDA is reported as a special revenue fund. The DDA is included with the Village financial statements using the blended presentation method because it serves as a financing source for capital projects and debt service payments benefiting the Village's operations.

#### **Joint Venture:**

*Pentwater Fire Department* – The Village of Pentwater and the Pentwater Township entered into an agreement effective June 1, 2008 under which the Township assumed responsibility for the accounting of the Pentwater Fire Department. The Fire Department is jointly operated by the Village and the Township. The Pentwater Fire Department is reported as a discretely presented component unit of Pentwater Township. Financial statements can be obtained by contacting the Village Office at 327 S. Hancock Street, Pentwater, MI.

#### **Accounting and Reporting Principles:**

The Village follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

#### **Report Presentation:**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Village's enterprise functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

#### **Fund Accounting:**

The Village accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow the Village to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds.

**Proprietary funds** provide goods or services to users in exchange for charges or fees.

**Fiduciary funds** account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the Village's own programs.

The Village reports the following major governmental funds:

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

The Village reports the following major proprietary funds:

**Enterprise Fund – Sewer Fund** – The Sewer Fund accounts for the operation and maintenance of the Village's sewage disposal system.

**Enterprise Fund – Water Fund** – The Water Fund account for the operation and maintenance of the Village's water supply system.

Additionally, the Village reports the following fund types:

**Special Revenue Funds** – Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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*Debt Service Funds* – Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Internal Service Funds* – Internal service funds account for the financing of goods or services provided by one department to other departments of the Village, on a cost-reimbursement basis. The Village reports on one internal service fund: 1) the motor pool fund is used for the purchase and maintenance of the Village's fleet through rental charges for equipment to other funds.

#### **Basis of Accounting:**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Village considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Specific Balances and Transactions:**

*Deposits and Investments* – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

*Restricted Assets* – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

*Inventories* – Inventories are valued at cost, on a first-in, first-out basis. Inventories of the Water Fund are recorded as expenses when consumed rather than when purchased.

*Prepaid Items* – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital Assets* – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are defined by the Village as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-40 years
Infrastructure	20-30 years
Land Improvements	10-20 years
Equipment	3-10 years
Docks	10 years
Water System	10-50 years
Sewer System	20-100 years

**Long-term Obligations** – In the government-wide financial statements and the proprietary fund type 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. The General Fund is generally used to liquidate governmental long-term debt.

**Deferred Outflows/Inflows of Resources** – In addition to assets, the statement of financial 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position 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 and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting.

**Net Position Flow Assumption** – Sometimes the Village will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Fund Balance Flow Assumption** – Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Village's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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**Fund Balance Policies** – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the Village is bound to honor constraints on the specific purpose for which amounts can be spent:

*Nonspendable* – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.

*Committed* – Amounts that have been formally set aside by the Village Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Village Council.

*Assigned* – Amounts that are intended to be used for specific purposes expressed by the Village Council.

*Unassigned* – Amounts that do not fall into any category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Property Taxes** – Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. The 2016 taxable valuation of the Village totaled \$92,578,724 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 8.0123 mills for the Village's operating purposes, .5316 mills for street improvements (allocated), .3468 mills for the Friendship Center, and 1.21 mills for village improvement projects (debt service). An additional 1.55 mills are levied on the \$14,823,267 taxable valuation in the Downtown Development Authority District. The delinquent real property taxes of the Village are purchased by Oceana County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

**Compensated Absences (Vacation and Sick Leave)** – Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. One-half of all unused accumulated sick leave is paid to employees who resign or retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are normally liquidated by the fund in which the individual employees are budgeted.

**Pension Costs** – The Village offers a defined benefit pension plan to its employees. The Village records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

***Other Postemployment Benefit Costs (OPEB)*** – The Village offers qualified retirees postemployment healthcare benefits. The Village used the alternative measurement method to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as the stipend is paid. For the government-wide statements and proprietary funds, the Village reports the full accrual cost equal to the current year annual required contribution (ARC) less any current year paid benefits, adjusted for interest and “adjustment to the ARC” on the beginning of the year underpaid amount, if any.

***Proprietary Funds Operating Classification*** – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The proprietary funds recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not included in these classifications are reported as nonoperating expenses.

#### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Interfund Activity:**

During the course of operations, the Village has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.



# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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#### **Upcoming New Accounting Standards:**

Effective for the fiscal year ending March 31, 2018, the Village will need to adopt Government Accounting Standards Board Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and effective for the fiscal year ending March 31, 2019, the Village will need to adopt Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements require governments offering postemployment benefits other than pensions to recognize, in the government-wide and proprietary statements, their long-term liability for the postemployment benefits and the annual costs of providing these benefits.

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### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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#### **Budgetary Information:**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. Before the beginning of the next fiscal year, a proposed operating budget is submitted to the Village Council by fund. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to April 1, the budget is legally enacted by adoption of the Village Council. Any revision that alters the total expenditures of any fund must be approved by the Village Council. Formal budgetary integration is employed as a management control device during the year for all funds. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the budgeted amounts for the General Fund as well as any other major funds is included in the required supplementary information. All annual appropriations lapse at fiscal year end.

#### **Excess of Expenditures over Appropriations in Budgeted Funds:**

During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

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### NOTE 3: DEPOSITS AND INVESTMENTS

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Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Village Council is in accordance with Public Act 196 of 1997. The Village's deposits and investments have been made in accordance with statutory authority.

The Village's deposits are subject to custodial risk, which is presented in more detail as follows:

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

**Custodial Credit Risk of Bank Deposits** is the risk that in the event of a bank failure, the Village's deposits may not be returned to them. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$3,619,618 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,250,000 was covered by federal depository insurance. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

**Interest Rate Risk of Investments** is the risk that the value of fixed income investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable 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. At year end, the average maturities of fixed income security investments are as follows:

<u>Investment Type</u>	<u>Market Value</u>	<u>Less than 1 Year</u>
Mutual fund - Equities and other	\$ 75,330	\$ 75,330
Investment Pool	<u>1,006,064</u>	<u>1,006,064</u>
	<u>\$ 1,081,394</u>	<u>\$ 1,081,394</u>

**Credit Risk of Investments** State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the credit quality ratings of fixed income securities are as follow:

<u>Investment Type</u>	<u>Market Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual fund - Equities and other	\$ 75,330	Not rated	N/A
Investment Pool	<u>1,006,064</u>	AAAm	S&P
	<u>\$ 1,081,394</u>		

**Custodial Credit Risk of Investments** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for investment custodial credit risk. At year end, none of the Village's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the Village and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the Village's name

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 4: FAIR VALUE MEASUREMENTS

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The Village categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Village's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The Village has the following recurring fair value measurement as of March 31, 2017:

Michigan CLASS investment pool in the amount of \$1,006,064 is valued at Level 2 inputs. The Village did not have any investments valued with Level 1 or Level 3 inputs at March 31, 2017.

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### NOTE 5: BOND RESERVES

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The Village's ordinance authorizing issuance of the \$3,000,000 Sewer Disposal System Revenue Refunding Bond, Series 2012A (Taxable) and the \$1,900,000 Sewer Disposal System Revenue Bond, Series 2012B (Taxable) requires that specific bond reserve and replacement reserve accounts be established and monies deposited.

***Operation and Maintenance Account*** – Revenues of the system shall be available to pay the reasonable and necessary current expenses of administration and operating and maintaining the systems for the ensuing quarter.

***Bond Reserve Account*** – Revenues of \$20,360 per year (\$12,460 related to the Series 2012A Revenue and Revenue Refunding Bond and \$7,900 related to the Series 2012B Revenue Bond) are to be transferred to this account until \$203,600 is accumulated. Accumulated at March 31, 2017 should be \$81,440.

***Repair, Replacement, and Improvement Account*** – Revenues of \$29,860 per year are to be transferred to this account for the life of the bonds. Accumulated amount at March 31, 2017 should be \$119,440.

At March 31, 2017, the Village's Sewer Fund had restricted cash and cash equivalents (for debt service) of \$425,505.

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017 was as follows:

	<u>April 1, 2016</u>	<u>Additions</u>	<u>Retirements/ Disposals</u>	<u>March 31, 2017</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 74,306	\$ -	\$ -	\$ 74,306
Capital assets being depreciated:				
Buildings and improvements	674,888	-	-	674,888
Equipment	763,289	37,301	-	800,590
Infrastructure	147,711	-	-	147,711
Land improvements	210,581	-	-	210,581
Total capital assets being depreciated	<u>1,796,469</u>	<u>37,301</u>	<u>-</u>	<u>1,833,770</u>
Less accumulated depreciation for:				
Buildings and improvements	(353,212)	(18,113)	-	(371,325)
Equipment	(511,899)	(45,099)	-	(556,998)
Infrastructure	(11,718)	(5,221)	-	(16,939)
Land improvements	<u>(52,016)</u>	<u>(6,801)</u>	<u>-</u>	<u>(58,817)</u>
Total accumulated depreciation	<u>(928,845)</u>	<u>(75,234)</u>	<u>-</u>	<u>(1,004,079)</u>
Capital assets being depreciated, net	<u>867,624</u>	<u>(37,933)</u>	<u>-</u>	<u>829,691</u>
Governmental activities, capital assets, net	<u>\$ 941,930</u>	<u>\$ (37,933)</u>	<u>\$ -</u>	<u>\$ 903,997</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 214,583	\$ -	\$ -	\$ 214,583
Capital assets being depreciated:				
Buildings and improvements	566,534	-	-	566,534
Docks and land improvements	273,011	84,360	-	357,371
Equipment	318,895	15,873	-	334,768
Sewer system	8,321,892	-	-	8,321,892
Water system	<u>2,180,078</u>	<u>-</u>	<u>-</u>	<u>2,180,078</u>
Total capital assets being depreciated	<u>11,660,410</u>	<u>100,233</u>	<u>-</u>	<u>11,760,643</u>

continued

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 6: CAPITAL ASSETS, CONTINUED

	<u>April 1, 2016</u>	<u>Additions</u>	<u>Retirements/ Disposals</u>	<u>March 31, 2017</u>
Less accumulated depreciation for:				
Buildings and improvements	(453,084)	(8,528)	-	(461,612)
Docks and land improvements	(172,179)	(7,984)	-	(180,163)
Equipment	(259,997)	(8,955)	-	(268,952)
Sewer system	(2,065,083)	(200,246)	-	(2,265,329)
Water system	(920,959)	(36,671)	-	(957,630)
Total accumulated depreciation	(3,871,302)	(262,384)	-	(4,133,686)
Capital assets being depreciated, net	7,789,108	(162,151)	-	7,626,957
Business-type activities, capital assets, net	<u>\$ 8,003,691</u>	<u>\$ (162,151)</u>	<u>\$ -</u>	<u>\$ 7,841,540</u>

Depreciation expense was charged to various functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 13,027	\$ -
Public safety	15,212	-
Public works	33,706	-
Recreation and culture	13,289	-
Sewer	-	208,750
Water	-	44,889
Marina	-	8,745
	<u>\$ 75,234</u>	<u>\$ 262,384</u>

### NOTE 7: LONG-TERM DEBT

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and contract financing are direct obligations and pledge the full faith and credit of the Village. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 7: LONG-TERM DEBT

Long-term liability activity for the year ended March 31, 2017 was as follows:

	<u>April 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2017</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
<i>General obligation bonds:</i>					
1996 Village Improvement Project Unlimited Tax Bonds in the amount of \$990,000 PAID OFF	\$ 100,000	\$ -	\$ (100,000)	\$ -	\$ -
<i>Other liabilities:</i>					
Compensated absences	<u>21,476</u>	<u>2,143</u>	<u>-</u>	<u>23,619</u>	<u>-</u>
Total governmental activities long- term liabilities	<u>\$ 121,476</u>	<u>\$ 2,143</u>	<u>\$ (100,000)</u>	<u>\$ 23,619</u>	<u>\$ -</u>
<b>Business-type activities:</b>					
<i>Revenue Bonds:</i>					
2012A Sewer Disposal System Revenue Refunding Bond in the amount of \$3,000,000, due in annual amounts of \$47,000 to \$120,000, plus interest at 2.75% through April 1, 2052.	\$ 2,825,000	\$ -	\$ (47,000)	\$ 2,778,000	\$ -
2012B Sewer Disposal System Revenue Bond in the amount of \$1,900,000, due in annual amounts of \$30,000 to \$76,000, plus interest at 2.75% through April 1, 2052.	1,789,000	-	(30,000)	1,759,000	-
<i>General obligation bond:</i>					
2007 Water Project Limited Tax Bonds in the amount of \$1,177,353, due in annual amounts of \$55,000 to \$70,000, plus interest at 2.125% through October 1, 2027.	762,353	-	(55,000)	707,353	60,000
<i>Other liabilities:</i>					
Compensated absences	<u>2,026</u>	<u>923</u>	<u>-</u>	<u>2,949</u>	<u>-</u>
Total business-type activities long- term liabilities	<u>\$ 5,378,379</u>	<u>\$ 923</u>	<u>\$ (132,000)</u>	<u>\$ 5,247,302</u>	<u>\$ 60,000</u>

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 7: LONG-TERM DEBT, CONTINUED

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Annual debt service requirements to maturity for the above bonds and contracts payable (excluding compensated absences) are as follows:

<i>Year Ended</i> <u>March 31,</u>	<i>Business-type Activities</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,000	\$ 77,415	\$ 137,415
2019	139,000	137,438	276,438
2020	141,000	133,963	274,963
2021	143,000	130,433	273,433
2022	150,000	126,848	276,848
2023-2027	799,000	576,358	1,375,358
2028-2032	598,353	480,633	1,078,986
2033-2037	608,000	401,008	1,009,008
2038-2042	697,000	311,427	1,008,427
2043-2047	798,000	208,809	1,006,809
2048-2052	915,000	91,233	1,006,233
2053	196,000	2,695	198,695
	<u>\$ 5,244,353</u>	<u>\$ 2,678,260</u>	<u>\$ 7,922,613</u>

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### NOTE 8: INTERFUND BALANCES

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At year end, there was an interfund balance outstanding as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Marina Fund	\$ 11,900

The balance is expected to be repaid within one year.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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Receivables and payables as of year end are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
<b>Receivables:</b>		
Property taxes	\$ 19,617	\$ -
Accounts	34,306	216,790
Intergovernmental	<u>34,927</u>	<u>-</u>
Total receivables	<u>\$ 88,850</u>	<u>\$ 216,790</u>
<b>Accounts payable and accrued expenses:</b>		
Accounts	\$ 29,157	\$ 7,922
Payroll and related liabilities	21,938	1,144
Deposits payable	<u>600</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 51,695</u>	<u>\$ 9,066</u>

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### NOTE 10: RISK MANAGEMENT

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The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The Village has purchased insurance through Priority Health for medical benefits, manages its workers compensation risk, by participating in Michigan Municipal Workers Compensation Fund, and its liability and property risk by participating in the Michigan Municipal League's Liability and Property Pool. The Village pays an annual premium for its workers compensation, property and liability insurance coverage. Both the Michigan Municipal Workers Compensation Fund and the Michigan Municipal Liability and Property Pool are self-sustaining through member premiums. The Michigan Municipal Liability and Property Pool provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

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### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS

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#### **Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):**

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



# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

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

**Benefits Provided** – The following are the benefits provided from the December 31, 2015 valuation. The division is open.

	<u>General</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	8 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions:	6.59%
Act 88:	Yes (Adopted 12/14/1970)

**Employees covered by benefit terms** – At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	13
Inactive employees entitled to but not yet receiving benefits:	3
Active employees:	<u>9</u>
Total	<u><u>25</u></u>

**Contributions** – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. The employers’ annual required contributions (ARC), for the current year, were 11.82% as a percentage of payroll. This amount is based on the valuation payroll from the December 31, 2014 actuarial valuation.

**Net Pension Liability** – The employer’s net pension liability was measured as of December 31, 2016. The total pension liability as of December 31, 2016 was calculated by the roll-forward method based on the December 31, 2015 actuarial valuation.

**Actuarial assumptions** – The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5%; Salary Increases: 3.75% in the long-term; Investment rate of return: 7.75%, net of investment and administrative expenses including inflation.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

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Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

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

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

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Changes in net pension liability during the measurement year were as follows:

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/15	\$ 1,833,738	\$ 1,357,719	\$ 476,019
Service cost	60,706	-	60,706
Interest on total pension liability	148,711	-	148,711
Difference between expected and actual experience	37,179	-	37,179
Changes in assumptions	92,191	-	92,191
Employer contributions	-	55,569	(55,569)
Employee contributions	-	31,784	(31,784)
Net investment income	-	153,663	(153,663)
Benefit payments, including employee refunds	(123,070)	(123,070)	-
Administrative expenses	-	(3,034)	3,034
Other changes	(17,804)	-	(17,804)
Net changes	197,913	114,912	83,001
Balances at 12/31/16	<u>\$ 2,031,651</u>	<u>\$ 1,472,631</u>	<u>\$ 559,020</u>

The net pension liability is recorded as follows:

Governmental activities	\$ 452,805
Business-type activities	<u>106,215</u>
	<u>\$ 559,020</u>

**Sensitivity of the net pension liability to changes in the discount rate** – The following presents the net pension liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<i>1% Decrease Rate 7.25%</i>	<i>Current Rate 8.25%</i>	<i>1% Increase Rate 9.25%</i>
Net pension liability	\$ -	\$ 559,020	\$ 401,124
Change in net pension liability	<u>208,878</u>	<u>-</u>	<u>(178,170)</u>
	<u>\$ 767,898</u>	<u>\$ 559,020</u>	<u>\$ 380,850</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – For the year ended March 31, 2017; the Village recognized pension expense, on the defined benefit plan, of \$114,303.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

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The Village reported deferred outflows and inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences in experiences	\$ 24,786	\$ -
Differences in assumptions	61,461	-
Net difference between projected and actual earnings on pension plan investments	47,541	\$ -
Contributions subsequent to the measurement date	<u>15,857</u>	<u>-</u>
	<u>\$ 149,645</u>	<u>\$ -</u>

The deferred outflows of resources are recorded as follows:

Governmental activities	\$ 121,213
Business-type activities	<u>28,432</u>
	<u>\$ 149,645</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the Village contributions to the plan made subsequent to the measurement date (\$15,857), which will impact the net pension liability in fiscal year 2018, rather than pension expense.

<i>Year Ended</i>	<i>Amount</i>
2018	\$ 61,854
2019	61,854
2020	18,730
2021	(8,650)

**Pension Plan Fiduciary Net Position** – Detailed information about the plan’s fiduciary net position is available in the separately issued financial report found at [www.mersofmichigan.com](http://www.mersofmichigan.com). The plan’s fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

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### NOTE 12: OTHER POSTEMPLOYMENT BENEFITS

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**Plan Description** – For employees hired before April 1, 2015 that are vested in the Village's pension plan and had not opted out of health insurance for the in lieu payments five (5) years prior to retirement, the Village will pay a percentage of the pre-Medicare health insurance premiums based upon years of service as of the date of retirement beginning at age 55.

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 12: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The amount is payable to the eligible retiree and spouse to age Medicare eligibility. The spouse is the person to whom the retiree is married at the time of retirement. If the eligible retiree dies before age Medicare eligibility, the percentage payable to the eligible spouse continues to Medicare eligibility.

Retirees age 55 with ten (10) to fifteen (15) years of service will receive 25% of the healthcare premium and retirees age 55 with sixteen (16) or more years of service will receive 50% of the healthcare premium. The health care plan for pre-Medicare retirees will be the same as provided to active employees.

Employees hired after April 1, 2015 are not eligible to receive a Village healthcare retirement benefit.

**Funding Policy** – The Village has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). For the year ended March 31, 2017, the Village contributed \$14,069 for the medical insurance premiums for retirees and \$10,000 to the OPEB Trust Fund.

**Annual OPEB Cost and Net OPEB Obligation** – The Village has elected to calculate the annual required contribution (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The Village's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The computed annual required contribution and actual funding are summarized as follows:

#### Year Ended March 31, 2017

Annual required contribution (recommended)	\$ 31,138
Interest on the prior year's net OPEB obligation	32,677
Less adjustment to the annual required contribution	<u>(36,358)</u>
Annual OPEB cost	27,457
Amounts contributed:	
Payments of current premiums	(14,069)
Advance funding	<u>(10,000)</u>
Increase in net OPEB obligation	3,388
OPEB obligation - Beginning of year	<u>466,797</u>
OPEB obligation - End of year	<u>\$ 470,185</u>

The OPEB obligation is record as follows:

Governmental activities	\$ 419,591
Business-type activities	<u>50,594</u>
	<u>\$ 470,185</u>

# VILLAGE OF PENTWATER

## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

### NOTE 12: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The Village's annual OPEB cost, the amount contributed to the plan, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended March 31, 2017 and the two preceding March 31 year ends were as follows:

<i>Fiscal Year Ending</i>	<i>Actuarial Valuation Date</i>	<i>Annual OPEB Cost</i>	<i>Amount Contributed</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
3/31/17	12/31/15	\$ 27,457	\$ 24,069	87.7%	\$ 470,185
3/31/16	12/31/15	29,094	25,804	88.7%	466,797
3/31/15	4/1/12	98,566	35,170	35.7%	463,507

**Funding Status and Funding Progress** – As of December 31, 2015, the most recent actuarial valuation, the plan assets were \$54,637, the actuarial accrued liability for benefits was \$429,366, the total unfunded actuarial liability is \$372,224, and the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) is 13%. The covered payroll (annual payroll of active employees covered by the plan) was \$204,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 182%. The market value of the OPEB Trust Fund at March 31, 2017 was \$75,330.

The projection of future benefit payments for an ongoing plan involves 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 trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2015 valuation, a discount rate of 7% was used. The annual rate for medical care inflation in the first year was 8% graded down to 4% in .5% increments over 8 years. In addition, the Entry Age Normal Cost actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over 30 years. Life expectancies were based on the RP 2000 Combined Healthy Mortality Table Projected to 2014.

# VILLAGE OF PENTWATER

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## NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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### NOTE 13: RESTRICTED NET POSITION

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The governmental activities statement of net position reports \$425,389 of restricted net position, of which \$305,779 is restricted by Act 51 enabling legislation.

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### NOTE 14: SUBSEQUENT EVENTS

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On April 12, 2017, the Village issued 2017 Unlimited Tax General Obligation Bonds in the amount of \$2,000,000 for the purpose of paying the cost of improving, replacing, resurfacing, reconstructing and equipment major streets and local streets, including storm drainage improvements, and rights-of-way and paying the cost of issuing the Bonds.

***REQUIRED SUPPLEMENTARY INFORMATION***



# VILLAGE OF PENTWATER

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## SCHEDULE OF CHANGES IN VILLAGE'S NET PENSION LIABILITY AND RELATED RATIOS

Last Two Calendar Years (Ultimately 10 years will be presented)

	<u>2016</u>	<u>2015</u>
Service cost	\$ 60,706	\$ 58,298
Interest on total pension liability	148,711	142,500
Difference between expected and actual experience	37,179	-
Changes in assumptions	92,191	-
Benefit payments, including employee refunds	(123,070)	(115,630)
Other changes	<u>(17,804)</u>	<u>(7,363)</u>
<b>Net change in total pension liability</b>	197,913	77,805
<b>Total pension liability - beginning</b>	<u>1,833,738</u>	<u>1,755,933</u>
<b>Total pension liability - ending</b>	<u>\$ 2,031,651</u>	<u>\$ 1,833,738</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 55,569	\$ 45,613
Contributions - employee	31,784	26,870
Net investment income (loss)	153,663	(21,230)
Benefit payments, including employee refunds	(123,070)	(115,630)
Administrative expenses	<u>(3,034)</u>	<u>(3,102)</u>
<b>Net change in plan fiduciary net position</b>	114,912	(67,479)
<b>Total plan fiduciary net position - beginning</b>	<u>1,357,719</u>	<u>1,425,198</u>
<b>Total plan fiduciary net position - ending</b>	<u>\$ 1,472,631</u>	<u>\$ 1,357,719</u>
<b>Village's net pension liability</b>	\$ 559,020	\$ 476,019
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	72.48%	74.04%
<b>Covered employee payroll</b>	\$ 426,161	\$ 416,584
<b>Village's net pension liability as a percentage of covered payroll</b>	131.18%	114.27%

# VILLAGE OF PENTWATER

## SCHEDULE OF VILLAGE DEFINED BENEFIT PLAN PENSION CONTRIBUTIONS Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 57,818	\$ 47,758	\$ 57,582	\$ 41,979	\$ 36,254
Contributions in relation to the actuarially determined contribution	<u>57,818</u>	<u>47,758</u>	<u>57,582</u>	<u>41,979</u>	<u>36,254</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 426,161	\$ 447,631	\$ 296,569	\$ 305,683	\$ 265,713
Actuarially determined contribution as a percentage of covered-employee payroll	14%	11%	19%	14%	14%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 26,944	\$ 25,800	\$ 26,485	\$ 29,300	\$ 21,400
Contributions in relation to the actuarially determined contribution	<u>26,944</u>	<u>25,800</u>	<u>26,485</u>	<u>29,300</u>	<u>21,400</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 307,521	\$ 318,694	\$ 365,631	\$ 240,306	\$ 216,456
Actuarially determined contribution as a percentage of covered-employee payroll	9%	8%	7%	12%	10%

### Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of December 31 each year, 15 months prior to the beginning of the fiscal year in which contributions are required.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	50-60 years of age depending on years of service credited
Mortality	RP-2014 Group Annuity Mortality Table of 50% Male - 50% Female blend
Assumption and method changes	Mortality table was adjusted to reflect longer lifetimes Assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75% Asset smoothing was changed from 10 to 5 years (no impact on 2015 valuation) Amortization period was moved to a fixed period amortization for the December 31, 2014 valuation (no impact on 2015 valuation)

# VILLAGE OF PENTWATER

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## SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
12/31/15	\$ 54,637	\$ 429,366	\$ 374,729	13%	Not available	Not available
4/1/12	10,652	959,889	949,237	1%	Not available	Not available
4/1/09	-	841,975	841,975	0%	Not available	Not available

Changes from the last actuarial valuation:

Discount rate from 4% to 7%

Return on plan assets from 4% to 7%

Medical inflation rate from 9.5% graded down to 4.5% in .5% increments over 10 years to 8% graded down to 4% in .5% increments over 8 years

Mortality updated to RP 2000 Combined Healthy Mortality Table Projected to 2015

Coverage: Changed from 16 years of service 10%, 17 years of service 20%, 18 years of service 30%, 19 years of service 50%; to 10-15 years of service 25%; 16 years of service 50%. Employees hired after April 1, 2015 are not eligible to receive a healthcare retirement benefit.

# VILLAGE OF PENTWATER

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2017

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
<b>Revenues:</b>				
Property taxes	\$ 749,500	\$ 749,500	\$ 751,236	\$ 1,736
Licenses and permits	28,000	28,000	34,847	6,847
State grants	67,500	67,500	77,917	10,417
Contributions from other units	3,000	3,000	3,000	-
Charges for services	299,000	299,000	300,819	1,819
Fines and forfeits	1,000	1,000	872	(128)
Interest and rents	19,500	19,500	30,338	10,838
Other revenue	2,000	2,000	12,202	10,202
Total revenues	<u>1,169,500</u>	<u>1,169,500</u>	<u>1,211,231</u>	<u>41,731</u>
<b>Expenditures:</b>				
Current				
General government				
Elected Officials	24,500	24,500	17,059	(7,441)
Manager	128,500	128,500	122,867	(5,633)
Clerk/Treasurer	168,000	168,000	160,816	(7,184)
Audit	11,700	11,700	11,700	-
Hall and grounds	16,000	16,000	15,452	(548)
Attorney	28,800	28,800	21,192	(7,608)
Total general government	<u>377,500</u>	<u>377,500</u>	<u>349,086</u>	<u>(28,414)</u>
Public safety				
Police	<u>301,000</u>	<u>301,000</u>	<u>293,737</u>	<u>(7,263)</u>
Public works				
Department of public works	89,000	89,000	63,515	(25,485)
Street lighting	40,000	40,000	31,659	(8,341)
Sanitation services	108,000	108,000	107,888	(112)
Total public works	<u>237,000</u>	<u>237,000</u>	<u>203,062</u>	<u>(33,938)</u>
Community and economic development				
Planning and zoning	<u>57,500</u>	<u>57,500</u>	<u>42,772</u>	<u>(14,728)</u>
Recreation and culture				
Recreation K-6 program	12,500	12,500	10,442	(2,058)
Community promotion	6,500	6,500	5,881	(619)
Parks and recreation	133,500	133,500	116,553	(16,947)
Total recreation and culture	<u>152,500</u>	<u>152,500</u>	<u>132,876</u>	<u>(19,624)</u>
Capital outlay	<u>44,000</u>	<u>44,000</u>	<u>3,750</u>	<u>(40,250)</u>
Total expenditures	<u>1,169,500</u>	<u>1,169,500</u>	<u>1,025,283</u>	<u>(144,217)</u>
Change in fund balance	-	-	185,948	185,948
Fund balance, beginning of year	<u>993,072</u>	<u>993,072</u>	<u>993,072</u>	-
Fund balance, end of year	<u>\$ 993,072</u>	<u>\$ 993,072</u>	<u>\$ 1,179,020</u>	<u>\$ 185,948</u>

***OTHER SUPPLEMENTARY INFORMATION***

# VILLAGE OF PENTWATER

*NONMAJOR GOVERNMENTAL FUNDS*  
**COMBINING BALANCE SHEET**  
 March 31, 2017

	<i>Special Revenue Funds</i>			
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Downtown Development Authority Fund</i>	<i>Friendship Center Fund</i>
<b>Assets:</b>				
Cash and cash equivalents	\$ 162,289	\$ 122,353	\$ 30,888	\$ 54,819
Taxes receivable	-	680	388	444
Due from other governments	13,318	8,808	-	-
Total assets	\$ 175,607	\$ 131,841	\$ 31,276	\$ 55,263
<b>Liabilities and Fund Balances:</b>				
<i>Liabilities:</i>				
Accounts payable	\$ -	\$ -	\$ 36	\$ 1,366
Accrued expenses	839	830	-	16
Deposits payable	-	-	-	600
Total liabilities	839	830	36	1,982
<i>Fund balances:</i>				
Restricted for:				
Debt service	-	-	-	-
Downtown development	-	-	31,240	-
Friendship Center	-	-	-	53,281
Streets	174,768	131,011	-	-
Total fund balances	174,768	131,011	31,240	53,281
Total liabilities and fund balances	\$ 175,607	\$ 131,841	\$ 31,276	\$ 55,263

continued

# VILLAGE OF PENTWATER

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## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET, CONTINUED

March 31, 2017

	<u>Debt Service Fund</u>	
	<u>1996 Debt Fund</u>	<u>Total</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 33,541	\$ 403,890
Taxes receivable	1,548	3,060
Due from other governments	-	22,126
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 35,089</u>	<u>\$ 429,076</u>
<b>Liabilities and Fund Balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ -	\$ 1,402
Accrued expenses	-	1,685
Deposits payable	-	600
	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>3,687</u>
<b>Fund balances:</b>		
Restricted for:		
Debt service	35,089	35,089
Downtown development	-	31,240
Friendship Center	-	53,281
Streets	-	305,779
	<u>          </u>	<u>          </u>
Total fund balances	<u>35,089</u>	<u>425,389</u>
Total liabilities and fund balances	<u>\$ 35,089</u>	<u>\$ 429,076</u>

# VILLAGE OF PENTWATER

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2017

	<i>Special Revenue Funds</i>			
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Downtown Development Authority Fund</i>	<i>Friendship Center Fund</i>
<b>Revenues:</b>				
Property taxes	\$ -	\$ 49,033	\$ 22,410	\$ 31,985
State grants	65,229	48,126	-	-
Interest and rents	146	116	27	3,245
Other revenue	-	-	319	-
Total revenues	<u>65,375</u>	<u>97,275</u>	<u>22,756</u>	<u>35,230</u>
<b>Expenditures:</b>				
Current				
Public works	60,107	93,977	-	-
Community and economic development	-	-	26,857	-
Recreation and culture	-	-	-	29,915
Capital outlay	-	-	-	3,172
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Total expenditures	<u>60,107</u>	<u>93,977</u>	<u>26,857</u>	<u>33,087</u>
Changes in fund balances	5,268	3,298	(4,101)	2,143
Fund balances, beginning of year	<u>169,500</u>	<u>127,713</u>	<u>35,341</u>	<u>51,138</u>
Fund balances, end of year	<u>\$ 174,768</u>	<u>\$ 131,011</u>	<u>\$ 31,240</u>	<u>\$ 53,281</u>

continued



# VILLAGE OF PENTWATER

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## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended March 31, 2017

	<u>Debt Service Fund</u>	
	<u>1996 Debt Fund</u>	<u>Total</u>
<b>Revenues:</b>		
Property taxes	\$ 111,612	\$ 215,040
State grants	-	113,355
Interest and rents	31	3,565
Other revenue	-	319
	<u>111,643</u>	<u>332,279</u>
<b>Expenditures:</b>		
Current		
Public works	-	154,084
Community and economic development	-	26,857
Recreation and culture	-	29,915
Capital outlay	-	3,172
Debt service		
Principal	100,000	100,000
Interest and fees	19,335	19,335
	<u>119,335</u>	<u>333,363</u>
Changes in fund balances	(7,692)	(1,084)
Fund balances, beginning of year	<u>42,781</u>	<u>426,473</u>
Fund balances, end of year	<u>\$ 35,089</u>	<u>\$ 425,389</u>

# VILLAGE OF PENTWATER

## COMBINING SEWER FUND

### COMBINING STATEMENT OF NET POSITION

March 31, 2017

	<u>Village Sewer</u>	<u>Township Sewer</u>	<u>Total Sewer</u>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 718,446	\$ 273,414	\$ 991,860
Investments	501,002	-	501,002
Accounts receivable	116,834	32,517	149,351
Total current assets	<u>1,336,282</u>	<u>305,931</u>	<u>1,642,213</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents			
Bond Reserve	81,440	-	81,440
RRI Reserve	119,440	-	119,440
Operation and Maintenance	224,625	-	224,625
Advance receivable/payable	75,614	(75,614)	-
Capital assets not being depreciated	2,196	-	2,196
Capital assets being depreciated, net	6,034,409	83,705	6,118,114
Total noncurrent assets	<u>6,537,724</u>	<u>8,091</u>	<u>6,545,815</u>
Total assets	<u>7,874,006</u>	<u>314,022</u>	<u>8,188,028</u>
<b>Deferred outflows of resources:</b>			
Related to pension	<u>8,979</u>	<u>4,490</u>	<u>13,469</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	5,816	168	5,984
Accrued expenses	-	206	206
Total current liabilities	<u>5,816</u>	<u>374</u>	<u>6,190</u>
<b>Noncurrent liabilities:</b>			
Bonds payable	4,537,000	-	4,537,000
Compensated absences payable	1,397	-	1,397
Net OPEB obligation	22,741	-	22,741
Net pension liability	33,541	16,771	50,312
Total noncurrent liabilities	<u>4,594,679</u>	<u>16,771</u>	<u>74,450</u>
Total liabilities	<u>4,600,495</u>	<u>17,145</u>	<u>80,640</u>
<b>Net position:</b>			
Net investment in capital assets	1,499,605	83,705	1,583,310
Restricted for:			
Debt service	425,505	-	425,505
Unrestricted	<u>1,357,380</u>	<u>217,662</u>	<u>1,575,042</u>
Total net position	<u>\$ 3,282,490</u>	<u>\$ 301,367</u>	<u>\$ 3,583,857</u>

# VILLAGE OF PENTWATER

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## COMBINING SEWER FUND

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended March 31, 2017

	<u>Village Sewer</u>	<u>Township Sewer</u>	<u>Total Sewer</u>
<b>Operating revenues:</b>			
Charges for services	\$ 453,011	\$ 113,060	\$ 566,071
Penalties	4,052	1,351	5,403
Connection fees	4,000	4,000	8,000
Total operating revenues	<u>461,063</u>	<u>118,411</u>	<u>579,474</u>
<b>Operating expenses:</b>			
Personal services	31,607	12,362	43,969
Supplies	49,396	167	49,563
Contracted services	38,612	4,779	43,391
Administrative expense	72,075	21,000	93,075
Other services and charges	79,572	10,045	89,617
Depreciation	200,660	8,090	208,750
Total operating expenses	<u>471,922</u>	<u>56,443</u>	<u>528,365</u>
Operating income (loss)	<u>(10,859)</u>	<u>61,968</u>	<u>51,109</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	10,100	226	10,326
Interest expense	(126,885)	(5,438)	(132,323)
Net non-operating revenues (expenses)	<u>(116,785)</u>	<u>(5,212)</u>	<u>(121,997)</u>
Changes in net position	(127,644)	56,756	(70,888)
Net position, beginning of year	<u>3,410,134</u>	<u>244,611</u>	<u>3,654,745</u>
Net position, end of year	<u>\$ 3,282,490</u>	<u>\$ 301,367</u>	<u>\$ 3,583,857</u>

# VILLAGE OF PENTWATER

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

March 31, 2017

#### 1996 VILLAGE IMPROVEMENT PROJECT UNLIMITED TAX GENERAL OBLIGATION BONDS

Issue dated April 1, 1996 in the amount of	\$	990,000
Less: Principal paid in prior years		(890,000)
Principal paid in current year		<u>(100,000)</u>
Balance payable at March 31, 2017	\$	<u><u>-</u></u>

# VILLAGE OF PENTWATER

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

March 31, 2017

#### 2007 WATER PROJECT LIMITED TAX GENERAL OBLIGATION BONDS

Issue dated March 29, 2007 in the amount of	\$ 1,177,353
Less: Principal paid in prior years	(415,000)
Principal paid in current year	<u>(55,000)</u>
Balance payable at March 31, 2017	<u>\$ 707,353</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Interest Due</u>		<u>Principal Due</u>	<u>Total</u>
		<u>4/1</u>	<u>10/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2018	2.125%	\$ 7,516	\$ 7,515	\$ 60,000	\$ 75,031
2019	2.125%	6,878	6,878	60,000	73,756
2020	2.125%	6,241	6,240	60,000	72,481
2021	2.125%	5,603	5,603	60,000	71,206
2022	2.125%	4,966	4,965	65,000	74,931
2023	2.125%	4,275	4,275	65,000	73,550
2024	2.125%	3,584	3,585	65,000	72,169
2025	2.125%	2,894	2,894	65,000	70,788
2026	2.125%	2,203	2,203	70,000	74,406
2027	2.125%	1,459	1,460	70,000	72,919
2028	2.125%	716	715	67,353	68,784
		<u>\$ 46,335</u>	<u>\$ 46,333</u>	<u>\$ 707,353</u>	<u>\$ 800,021</u>

# VILLAGE OF PENTWATER

## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

March 31, 2017

#### 2012A SEWER DISPOSAL SYSTEM REVENUE REFUNDING BOND

Issue dated June 25, 2012 in the amount of	\$ 3,000,000
Less: Principal paid in prior years	(175,000)
Principal paid in current year	<u>(47,000)</u>
Balance payable at March 31, 2017	<u>\$ 2,778,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>		<u>Interest Due</u>		<u>Total Annual Requirement</u>
		<u>4/1</u>	<u>10/1</u>	<u>4/1</u>	<u>10/1</u>	
2018	2.75%	\$ -	\$ -	\$ 38,198	\$ 38,198	\$ 38,198
2019	2.75%	48,000	38,198	37,538	123,736	123,736
2020	2.75%	50,000	37,538	36,850	124,388	124,388
2021	2.75%	51,000	36,850	36,149	123,999	123,999
2022	2.75%	52,000	36,149	35,434	123,583	123,583
2023	2.75%	54,000	35,434	34,691	124,125	124,125
2024	2.75%	55,000	34,691	33,935	123,626	123,626
2025	2.75%	57,000	33,935	33,151	124,086	124,086
2026	2.75%	58,000	33,151	32,354	123,505	123,505
2027	2.75%	60,000	32,354	31,529	123,883	123,883
2028	2.75%	62,000	31,529	30,676	124,205	124,205
2029	2.75%	63,000	30,676	29,810	123,486	123,486
2030	2.75%	65,000	29,810	28,916	123,726	123,726
2031	2.75%	67,000	28,916	27,995	123,911	123,911
2032	2.75%	69,000	27,995	27,046	124,041	124,041
2033	2.75%	71,000	27,046	26,070	124,116	124,116
2034	2.75%	72,000	26,070	25,080	123,150	123,150
2035	2.75%	74,000	25,080	24,063	123,143	123,143
2036	2.75%	76,000	24,063	23,018	123,081	123,081
2037	2.75%	79,000	23,018	21,931	123,949	123,949
2038	2.75%	81,000	21,931	20,818	123,749	123,749
2039	2.75%	83,000	20,818	19,676	123,494	123,494
2040	2.75%	85,000	19,676	18,508	123,184	123,184
2041	2.75%	88,000	18,508	17,298	123,806	123,806
2042	2.75%	90,000	17,298	16,060	123,358	123,358
2043	2.75%	92,000	16,060	14,795	122,855	122,855
2044	2.75%	95,000	14,795	13,489	123,284	123,284
2045	2.75%	98,000	13,489	12,141	123,630	123,630
2046	2.75%	100,000	12,141	10,766	122,907	122,907
2047	2.75%	103,000	10,766	9,350	123,116	123,116
2048	2.75%	106,000	9,350	7,893	123,243	123,243
2049	2.75%	109,000	7,893	6,394	123,287	123,287

continued

# VILLAGE OF PENTWATER

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS, CONTINUED

March 31, 2017

#### 2012A SEWER DISPOSAL SYSTEM REVENUE REFUNDING BOND, CONTINUED

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>	<u>Interest Due</u>		<u>Total</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2050	2.75%	112,000	6,394	4,854	123,248
2051	2.75%	115,000	4,854	3,273	123,127
2052	2.75%	118,000	3,273	1,650	122,923
2053	2.75%	120,000	1,650	-	121,650
		<u>\$ 2,778,000</u>	<u>\$ 791,399</u>	<u>\$ 791,399</u>	<u>\$ 4,360,798</u>

# VILLAGE OF PENTWATER

## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

March 31, 2017

#### 2012B SEWER DISPOSAL SYSTEM REVENUE BOND

Issue dated June 25, 2012 in the amount of	\$ 1,900,000
Less: Principal paid in prior years	(111,000)
Principal paid in current year	<u>(30,000)</u>
Balance payable at March 31, 2017	<u>\$ 1,759,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>		<u>Interest Due</u>		<u>Total Annual Requirement</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>10/1</u>	
2018	2.75%	\$ -	\$ -	\$ 24,186	\$ -	\$ 24,186
2019	2.75%	31,000	24,186	23,760	-	78,946
2020	2.75%	31,000	23,760	23,334	-	78,094
2021	2.75%	32,000	23,334	22,894	-	78,228
2022	2.75%	33,000	22,894	22,440	-	78,334
2023	2.75%	34,000	22,440	21,973	-	78,413
2024	2.75%	35,000	21,973	21,491	-	78,464
2025	2.75%	36,000	21,491	20,996	-	78,487
2026	2.75%	37,000	20,996	20,488	-	78,484
2027	2.75%	38,000	20,488	19,965	-	78,453
2028	2.75%	39,000	19,965	19,429	-	78,394
2029	2.75%	40,000	19,429	18,879	-	78,308
2030	2.75%	41,000	18,879	18,315	-	78,194
2031	2.75%	42,000	18,315	17,738	-	78,053
2032	2.75%	43,000	17,738	17,146	-	77,884
2033	2.75%	45,000	17,146	16,528	-	78,674
2034	2.75%	46,000	16,528	15,895	-	78,423
2035	2.75%	47,000	15,895	15,249	-	78,144
2036	2.75%	48,000	15,249	14,589	-	77,838
2037	2.75%	50,000	14,589	13,901	-	78,490
2038	2.75%	51,000	13,901	13,200	-	78,101
2039	2.75%	53,000	13,200	12,471	-	78,671
2040	2.75%	54,000	12,471	11,729	-	78,200
2041	2.75%	55,000	11,729	10,973	-	77,702
2042	2.75%	57,000	10,973	10,189	-	78,162
2043	2.75%	59,000	10,189	9,378	-	78,567
2044	2.75%	60,000	9,378	8,553	-	77,931
2045	2.75%	62,000	8,553	7,700	-	78,253
2046	2.75%	64,000	7,700	6,820	-	78,520
2047	2.75%	65,000	6,820	5,926	-	77,746
2048	2.75%	67,000	5,926	5,005	-	77,931
2049	2.75%	69,000	5,005	4,056	-	78,061

continued



# VILLAGE OF PENTWATER

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS, CONTINUED

March 31, 2017

#### 2012B SEWER DISPOSAL SYSTEM REVENUE BOND, CONTINUED

<u>Year Ended</u>	<u>Rate</u>	<u>Principal Due</u>	<u>Interest Due</u>		<u>Total</u>
		<u>4/1</u>	<u>4/1</u>	<u>10/1</u>	<u>Annual Requirement</u>
2050	2.75%	71,000	4,056	3,080	78,136
2051	2.75%	73,000	3,080	2,076	78,156
2052	2.75%	75,000	2,076	1,045	78,121
2053	2.75%	76,000	1,045	-	77,045
		<u>\$ 1,759,000</u>	<u>\$ 501,397</u>	<u>\$ 501,397</u>	<u>\$ 2,761,794</u>



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

To the Village Council  
Village of Pentwater  
Oceana County, 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 Pentwater, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Village of Pentwater's basic financial statements, and have issued our report thereon dated June 26, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village of Pentwater's internal control over financial reporting (internal controls) 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 Pentwater's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater'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.

**Compliance and Other Matters**

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

To the Village Council  
Village of Pentwater  
Oceana County, Michigan

**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.

*Berthiaume & Co.*

Saginaw, Michigan  
June 26, 2017